



# **The Business Mindset Investor**

*Learn To Treat Your Investment Portfolio Like A Business*

*Tim Travis*

## DEDICATION

*“This book is dedicated to my spectacular daughters, Stella and Adriana. You girls inspire, motivate, and drive me, and I hope that you never lose that joy in your hearts. Thank you for bringing so much more meaning to my life.”*

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## **Preface Standing On The Shoulders Of Giants**

When I was a child, I remember my dad going over the stock quotes with my older brother Peter in the newspaper. Why did the prices move in the first place? Was this some type of game adults play? I used to be a complete sports junkie, and I'd read every box score judiciously, but stocks didn't make any sense to me. It wasn't until I was given the book *The Intelligent Investor*, written by Benjamin Graham, that things started to change for me. My dad had bought me the book because it was recommended by Warren Buffett in an interview. The book changed my life completely.

In *The Intelligent Investor*, Graham discusses that stocks are fractional shares of a business. By fundamentally analyzing the balance sheet, the income statement, and the cash flows of a business, one can begin to ascribe value to it. Finally, if one can then buy that business or stock at a large discount to intrinsic value, the investor obtains a margin of safety. This margin of safety protects against loss and provides ample runway for large profits. Investing is an ideal way to build wealth. The difference between investing and speculation is that investing comes with the expectation of profits based on fundamental analysis versus the hope that you'll be right on your hunch with speculation.

Another key concept from Benjamin Graham's *Intelligent Investor* is his idea of Mr. Market. Imagine Mr. Market as a neighbor or friend who is extremely emotional. Each day, he is willing to buy or sell stocks at a given price. Some days, he is euphoric about

the prospects of stocks and will pay a very rich price for your securities. On other days, he feels like the world is crashing down, and he will sell his stocks at obscenely low valuations. Graham's idea is that the investor who can stay focused on the fundamentals while navigating the inevitable emotional pitfalls that betray most investors has a huge advantage.

After reading Graham, I read all of Warren Buffett's shareholder letters, both from Berkshire Hathaway and his previous investment partnership. I ventured into the works of other value investors such as Martin Whitman of Third Avenue Funds, Bruce Berkowitz, David Dreman, Bill Nygren, Bill Miller, Seth Klarman, and Joel Greenblatt. All of these investors had many differences in the types of investments that they made, but they shared the key concepts from Graham, such as margin of safety and using fundamental analysis to identify the intrinsic value of a business.

Investing and financial management are far more of an art than a science. After working in the business for more than 20 years now, I've seen the dire consequences when greed or a lack of planning derails well-deserved retirement plans. My goal in this book is to educate and to provide tools to make smart decisions, either by managing your own finances or outsourcing them to a highly-trained professional organization such as our firm, T&T Capital Management.

# 1. Why Is It So Hard To Protect Your Money?

My name is Tim Travis, and I can answer the question above. You see, what I do is protect your money.

Sometimes I get called a fancy title or two. Financial advisor, wealth manager, retirement analyst.

Most of my clients are professionals, business owners, and corporate executives. Successful people. They have been successful at making money, successful at saving money. Their net worth ranges from a half million range to ten million or more.

Retirement, however, is a whole new ball game. They have never done it before. Their friends aren't much help—no two people's situations are the same, and who wants to share the most intimate of financial details with even close friends?

So, that is part of what makes it so hard. Very successful people come into my office and are somewhat hesitant to even share that they have two big problems.

One, they don't know the best way to invest under the current economic situation. They were trained to do something else, and they were disciplined enough to save money. Only now are they entering the spending phase we call retirement. Will their savings be enough to last as long as they must?

Two, the even bigger problem is who do they trust? They need a guide, someone who they haven't really gotten to know yet.

Fortunately, I came prepared. I am armed with education of all sorts—my upbringing, my schooling, my workplace history, my mentors, and my extensive studies of market history and what works—or doesn't—under the ever-changing stock world conditions.

I am committed to education, the type we provide people before they become clients, and the type we provide after if the market throws curves and it is white-knuckle time.

I have confidence, and that's what I tell the people who work for me. We can do this, and we must do this because our clients are trusting us to help them navigate their retirements through rough waters.

It is the confidence that Captain "Sully" Sullivan had during Miracle on the Hudson.

That fateful day on Jan. 15, 2009, when Captain Chesley Sullivan took off from LaGuardia Airport in New York City, a flock of geese clogged both engines of the Airbus. The plane lost power with 155 people aboard. Air traffic controllers radioed instructions to head to a nearby airport.

Sully responded that he was unable to.

Controllers asked him to repeat.

“We’re gonna be in the Hudson,” he said.

Yet, the captain had the training and the ability, and he was going to land that aircraft safely. Two minutes later, he did. All 155 aboard survived as a flotilla of vessels came to the rescue.

Sully checked the inside of the airplane twice and was the last to leave. Fourteen months later, his retirement made headlines.

Of all the clients we’ve had, the one who sticks out was a professional but not even an American citizen yet. He was an immigrant from Africa, a doctor with plenty of student loan debt. He also was saving for retirement.

This doctor had read some about value investing. He knew about the late Charlie Munger, Warren Buffett’s right-hand man. That’s how he found me; we had a role model in common, and we bonded instantly.

Yes, “Doc” was indeed a doctor but also was very emotional. The market had hit a rough patch, and “Doc” wanted out. He wanted me to sell everything. We talked and talked. I explained why panicking was the worst thing he could do—probably selling out at the near bottom and being afraid to venture back in, even as others recouped their losses. I thankfully talked him off the ledge, which I have no doubt saved him hundreds of thousands of dollars at a minimum.

There were more episodes. He certainly was and is an emotional man.

And then came that bad month in March 2020 during the pandemic/lockdowns when he didn’t call.

“Doc” knew what I was going to say, and more importantly, he knew what he was supposed to do: Stay calm, don’t panic, and don’t check the stock quotations every thirty minutes or even every thirty days. Investing is a long-term process, and focusing on the short-term is often just being distracted by noise.

This doctor now is a very wealthy man, owning multiple homes and millions of dollars in assets. This would not have been the case if he let Mr. Market's fear guide his decision-making, causing him to panic.

Some of those conversations with the good doctor were intense. His life savings so far were, in his mind, at risk. Yet I was able to instill in him the self-confidence to stay with the program. We have recovered from various market downturns and bear markets. We have studied history, and I can provide examples like the kind of time it takes to get back and the steps we are taking. We want to project confidence into our clients, to use our knowledge and our study of history. I think a bit of that is unique relative to other advisors. That's a strength that we have.

So, welcome to our book. Along the way, I'll tell how I got into this business, after seeing some of the mistakes that really hurt my own family financially growing up and wanting to find solutions that would help others avoid these pitfalls. We'll discuss the books and investing mentors that shaped our core financial philosophies.

I'll explain the fundamentals of value investing and how to avoid today's squeeze on savers.

We will discuss why simply buying index or mutual funds, irrespective of valuation, can be a dangerously foolish decision, particularly as you get closer to retirement. We will dive into how, just because an investment is out of favor and has the perception of risk due to recent volatility, it actually might be very safe given the highly discounted price you are paying for it.

I'll introduce you to the approach we use at T&T Capital Management. It combines painstaking research to find stocks below their intrinsic value and using an options tool—selling a cash-secured put on stocks we want to own to manage risk and generate income. It is not commonly done and that is a shame. Investors deserve to have a full toolkit to battle the twists and turns of financial markets, and many of these larger firms offering cookie-cutter portfolios are only arming their clients with a hammer so everything looks like a nail.

## 2. The Solution Is To Treat Your Portfolio As A Business

Investors today have been battered by inflation, a depreciating dollar, and increasingly speculative activities driven by once-in-a-lifetime loose monetary policies. Unfortunately for most investors, most financial advisors and brokers rely on outdated models of asset allocation.

There is a different way. At T&T Capital Management, we have an approach that we feel produces higher risk-adjusted returns throughout market cycles. In this chapter, we explain:

- The difference between investing and speculation.
- That active portfolio management with a value investing philosophy can improve your investment performance over the long term.
- That fixed income in an inflationary environment can be a recipe for disaster.
- Using equity options as a tool can offer you more income at less risk.
- Avoiding cumbersome fee structures and irrational expectations support a more disciplined investment process.

### Investing Versus Speculation

In *The Intelligent Investor* by Benjamin Graham, the mentor to Warren Buffett wrote that the individual investor should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning. Yet, amazingly, many people let their speculative appetites run their investment portfolio. It is estimated that 80 percent to 95 percent of market participants focus on short-term trading mechanisms such as technical analysis or momentum trading. These concepts put no value on the contents of the balance sheet, cash flow generation, or capital structure.

Some of the greatest American companies in history, such as Bear Stearns, Lehman Brothers, and AIG, were decimated by faulty balance sheets and weak capital structures. Speculation without careful analysis is rarely a profitable endeavor.

At T&T Capital Management, we employ a deep value investment methodology predicated on substantial research of financial statements, competition, product development, and more. It gives the investor a framework to work with.

## **A Better Approach To Portfolio Management**

According to widely-cited industry data over the past two decades, actively managed mutual funds consistently underperform their benchmark indices by about a three-to-one margin. This means that 75 percent to 80 percent of mutual funds underperform their corresponding index. The reason: Many mutual funds try to mimic index funds, but they charge higher fees.

Years ago, Buffett wrote a fabulous article called “The Superinvestors of Graham-and-Doddsville.” It showed the track records of money managers who came from the Graham, Dodd, and Buffett circle of influence. The study showed that value investors outperformed the market by a significant margin over time.

All these funds outperformed the S&P 500 by a respectable margin. This is a common theme over any reasonable time frame, as value investing has been the best long-term investment strategy. However, there are periods of time when value investing dramatically underperforms growth investing. As I write this in early 2025, the Russell 1000 Growth Index has managed to outperform the Russell 1000 Value Index by a staggering 54 percent since November of 2022, bolstered by the AI boom.

In value investing, psychology plays an essential element because human psychology rarely changes. It is natural for people to speculate and chase whatever is “hot” at the time, even if they completely understand deep down that past performance does not guarantee future results. Active portfolio management with a skilled value investor enables you to buy more of something valuable as it gets cheaper and to sell when it becomes more fully appreciated in the market. If skillfully employed, it can be like dollar cost averaging on steroids.

Value investing is about mastering the ability to research businesses and independently ascertain an intrinsic value. At T&T Capital Management, we have taken Benjamin Graham's concept of margin of safety and built a basic framework in which we view the market.

- Every stock is simply a fractional share of a business.
- Every business or stock has an "intrinsic value." Over time, the "intrinsic value" of a business and the stock market value converge.
- "Time" could take three months or three years, that part is unpredictable.
- By buying the business at a substantial discount, you are creating an adequate margin of safety.
- To measure the intrinsic value, we carefully examine the balance sheet, the cash flows, the capital structure, the competitive environment, and other components.

There are four primary valuation techniques financial analysts use: discounted cash flow, normalized earnings power, what a private market buyer would pay to own the whole company, and liquidation value. The individual need not master the details of each one necessarily if they are working with a skilled advisor.

## **Inflation Clobbers Fixed Income**

Most asset allocation programs increase bond allocation percentages as the investor gets older. Mathematically, when interest rates go down, bond prices go up. So, prior to inflation perking up after all the COVID stimulus, financial advisors and planners were making projections on future returns using historical data from the prior 20 or 30 years, when interest rates had continuously dropped from the inflation highs of the early 1980s.

As this is written in early 2025, the ten-year Treasury yield is 4.8 percent. Inflationary pressures arose as the economy shook off the effects of the COVID lockdowns and after trillions of dollars of economic stimulus had been injected into the economy. Uncertainty remains, although the Federal Reserve has made several interest rate cuts because long-term interest rates have actually risen materially since the short-term rate cuts started. As the prospects of President Trump's second term take hold, many

prognosticators project faster economic growth and lower taxes but volatility around trade and inflation.

Inflation punishes aggregate savers, such as retirees living off relatively fixed incomes, as a fixed amount of cash flow buys fewer and fewer assets. The government loves inflation because it allows them to keep spending more and more money, inflating the currency so that they can delay confronting the massive fiscal deficits and debt. When inflation is rising, the Federal Reserve often needs to increase interest rates. Back between 2020 and 2022, interest rates were so low that many people were buying Treasury bonds with yields below 2 percent. Since bonds are priced based on spreads in relation to Treasuries, nearly all fixed-income assets were taking massive interest rate risks but were billed as the “safe” portion of the portfolio by the cookie-cutter advisors pushing conventional 60/40 type asset allocation strategies.

How much so? A 1 percent increase in yield causes a roughly 10 percent drop in ten-year bond prices. When rates went up by several percentage points, several super-aggressive banks went bust. These banks were buying long-term bonds at incredibly low yields, and were funding them with deposits, which are short-term in nature. When rates rose, the price of the bonds plummeted, and when depositors wised up to the massive holes being created on the balance sheets, they fled in droves, jeopardizing the banks and forcing the Feds to intervene.

Many bond portfolio managers mostly rely on rating agencies to determine credit quality, so it is difficult to avoid substantial interest rate risk. At T&T Capital Management we use our deep value investing principles to independently assess the credit quality of each bond.

Which investment opportunities offer the maximum risk-adjusted returns based on current and future market conditions? That becomes difficult if inflation is high. By hand-selecting securities, we’ve been able to invest more heavily in floating-rate loans that re-rate higher as rates rise. These offer substantial protection from inflation, which is missing in most conventional bond portfolios. We also can often identify companies that might not necessarily be investment-graded, but the underlying businesses are improving, ultimately leading to credit rating upgrades down the line. These securities

tend to offer higher yields while providing upside potential as the market catches up with the improving trends.

## **Equity Options As A Tool To More Income At Less Risk**

Many people are fearful of stock options. They don't know how they work or perceive them as some type of gambling device. At T&T Capital Management, we use options simply as a tool to generate income, reduce risk, and lower your cost basis. We do not use them to speculate.

Industry studies, including data published by the Chicago Mercantile Exchange, have indicated that the majority of options held to expiration expire worthless. Specific percentages vary by underlying and time period. This shows you that there are some inherent statistical advantages to our approach, selling options. We view this as similar to selling insurance — collecting premium for accepting a defined risk. What makes our strategy unique, though, is that we intertwine our deep value investment principles with the selling of covered calls and cash-secured puts. The idea is to only use these strategies on stocks that we either want to own or are willing to sell at a given price. This is vastly different than someone simply speculating on options trading.

Here's how it works: First, we identify a security that we would be interested in buying. For this example, we will use a company that we have written up in the past and that we know well, a financial guarantor we'll call Stock XYZ, a municipal bond insurer. It boasts an AA credit rating. If a city or municipality wants to finance a project and is rated A, they will have Stock XYZ insure the bond, guaranteeing interest and principal to investors. Stock XYZ collects the premium, and the municipality benefits by paying a lower interest rate.

A trade back in 2011 provides an example of how we use options. On August 9, 2011, Stock XYZ was trading at \$10.62. In 2010, this company had earned close to \$3 a share, meaning that it was trading at just over three times trailing earnings. Their book value was more than \$20 per share, and we believed that over time this company would be worth more than \$40 per share as future cash flows materialized. Stock XYZ stock

made sense at this price, and we did indeed own a lot of stock, but to make it even safer for certain more risk-averse investors, we chose to sell a put.

## **Strategy - Sell a Put**

Sell 1 September 2011 (38 days out) Stock XYZ \$10 put for \$.90

**Heads - If Stock XYZ traded above \$10 in 38 days we would collect \$90 or 9.9 percent on the maximum risk of \$9.10.**

**Tails** - The worst-case scenario was that if the stock expired below \$10, we would end up owning the stock at a break-even price of \$9.10. That would be a 14.30 percent discount to the price at which the stock was trading on August 9.

We find this asymmetric risk/reward profile attractive in the right circumstances.

So, you might ask, “Why doesn’t everyone use these strategies?”

We believe that most people do not know how to use options or value investing correctly. We also believe most people are scared of owning a stock if it drops. They are taught to “trend follow” or utilize charts to predict future stock movements, neither of which is weighted in rigorous fundamental analysis as we perform.

At T&T we can educate and assist you with options and value investing. We provide regular commentary on your positions which are based on intensive research and sensible investment strategies. We believe our approach supports a more disciplined investment process. For those that want us to simply manage their money for them, we are happy to do that and our most popular program is our managed account strategy.

There is very little argument that Warren Buffett is the greatest investor of the modern era, as he has produced truly extraordinary returns over a multi-decade period. From 1957 to 1969, Warren Buffett ran a smaller investment partnership akin to a modern-day hedge fund. Sources cited at the time reported the partnership compounded substantially ahead of the Dow Jones Industrial Average over the period (per Buffett’s partnership letters reproduced in Berkshire Hathaway shareholder materials).

As Buffett's fortune has grown, his investment returns have fallen as a percentage due to the huge size of the portfolio, which limits the scope of prospective investments. Currently, he is one of the richest men in the world, having achieved a compounded rate of return widely cited in the low-20s percent range over the duration of his career (sources: Berkshire Hathaway annual letters; various biographies).

The key to investing successfully over the long term is not just in the making of money but in protecting your capital. We believe you can potentially outperform the S&P 500 over the long term with consistency, discipline, and objective thinking. More important than outperforming, though, is making sound financial decisions so that you can have the financial future you have dreamed of. The business-like approach that this book extolls can help you achieve just that.

### **3. My Quest To Help Families Build Better Financial Futures**

I often get asked by clients or at social events as to how and why I got into this business.

Here, in my own words, is a longer version of what motivates me.

I was living a normal kid life in Laguna Beach, California, playing sports in high school with two older brothers in college.

My parents had always fought a lot, mostly about money. My dad was a good earner but not good at handling money. They spent more than their means, used credit cards far too liberally, and failed to invest capital to finance a better future.

When I was a senior in high school, my dad and I went on a vacation to Hawaii, and he knew about Warren Buffett. He didn't know a lot about investing, but he knew Warren Buffett was the best guy. He saw a book that Buffett had recommended in an interview called *The Intelligent Investor* by Benjamin Graham. He gave me the book to read while

on vacation, and while soaking in the sun at the beach, investing finally made sense to me.

In *The Intelligent Investor*, Graham talks about stocks being fractional shares of a business and that every business has an intrinsic value, along with the factors that determine that intrinsic value, such as cash flows and balance sheets. Eventually I pursued a college career at UC Santa Barbara to learn how to be a good businessperson who would also be good at handling money. I had a vision of someday having my own company to help families handle money better than mine had.

It took years of learning the ropes, but in 2011, we opened T&T Capital Management. It has grown to nearly 350 families and approximately \$190 million under management, bringing advanced hedge fund-like strategies to the average investor. Our passion is helping protect and build wealth, navigating whatever inevitable economic and financial storms that come our way.

Looking back, although I grew up in a very affluent area and had a very nice life, my parents' financial stress was always a major part of it. As my parents separated and ultimately divorced, I saw all of the complexities and challenges presented to them financially. Not only did they have half as much money, but they had to sell this incredible house we owned, the best investment they ever made. They had to sell it for a bargain price of \$1.2 million in 2004. Now it is worth \$4.5 million. Neither of my parents is well off or have strong retirements. Fortunately, we've been able to help them through investing, but the story should have been very different.

When I was in high school and then college, I closely followed the tech boom and bust, where there were crazy valuations. During the peak of that era, many people were quitting their real jobs to become "day traders." The euphoria lasted until the bust. We saw those stocks fall and fortunes ruined, retirement plans being ruined. I kept reading everything I could from Buffett and people like him, such as Martin Whitman from Third Avenue Funds, Bruce Berkowitz from Fairholme Funds, Joel Greenblatt, and Bill Nygren from Oakmark. These people really inspired me. I saw the tremendous success that they were having. it also was consistent with my personality. I never felt the need to try to be popular, nor do I feel the need now to invest in popular stocks.

Meaningful friendships provided real value to my life in a similar way that finding the unloved gem of a stock at a bargain price adds value to our investment portfolios. I'm a contrarian by nature, and value investing sits very well within that framework.

I started working as an intern at AG Edwards and Sons and Scottrade, and that was very helpful. They provided an insider view of both the traditional and discount brokerage industries. While I worked with some wonderful people, I wouldn't have wanted to have been a client of those firms, as often I found the advice given to be subpar or insufficient. There had to be a better way.

My first job out of college was with the Vanguard Group in Scottsdale, Arizona. It was 2004, during the tech bust. I saw that a lot of these people who had invested in index funds had lost half their retirement. That would cause them to panic or chase short-term performance. During that time, I remember Google had its initial public offering, which nowadays people would have gone bananas over, but at that time, after losing so much in the Tech Bust, most people were skeptical of it. My job was mostly customer service, and I realized the dream path of being a portfolio manager was not really something the company saw for me, so Vanguard was ultimately not for me, although I respect their low-cost funds.

After that, I worked at a small startup in Mission Viejo, California. Basically, they would sell covered options on the S&P 500 index. They'd use a strategy of selling a put and selling a call at specific prices, maybe 6 percent away from the current market price. They would cover the options by buying a put and call outside those strike prices they had sold before so that the risk was limited. This iron condor strategy worked really well for four years when volatility was abnormally low on the index, leading to nice profits and happy clientele. The firm grew from basically nothing to \$350 million or so in assets under management.

I had been doing a lot of research and studying the history of markets, and I saw that this type of strategy would blow up when volatility really started spiking. I was in my early to mid-twenties, and I had the audacity to call for a meeting with the millionaire owners to explain to them that the strategy was going to blow up and that the company should start an investment advisory firm focused on value investing, as it would be better for the client and the firm long-term.

Sadly, for all involved, the owners and management did not want to give up their short-term profit margins. Then, when the financial crisis started, clients started taking huge losses, and basically, the firm went from a growing giant to having to lay just about

everybody off. I still keep in touch with one of the owners, who laments at not having taken that advice from the twenty-five-year-old kid working the night trading desk.

In the options strategy that they used, when trades went bad, they would just close them out, as they weren't willing to hold on to the underlying index if exercised, which I viewed to be a fatal flaw, leading to permanent losses of capital. I saw that when Warren Buffett acquired Burlington Northern Santa Fe he started building his position via the selling of some put options on the stock. And so, I thought that that was a smart strategy, as the biggest risk is that you are exercised and will end up owning the stock you wanted to own anyway.

I realized that having a value investment strategy and utilizing an option tool would give me a competitive advantage versus the likes of the giant firms. Institutionally, these firms are so big that the compliance departments and the executives don't want to deviate from the core function of raising assets. So, they put clients in a cookie-cutter portfolio and then go play golf, network, and schmooze for new clients.

That's not the model that would ever work for me. I don't like golf. I want to invest money for clients in the way that I think is best and that I do for my own and my family's money, and the way that has changed my life.

From there, the financial crisis hit. I really didn't have the assets to start my own business. I started working at a commodities brokerage, and the brokerage was very effective at marketing. But the problem with commodities trading is that most people lose money. The commissions are high, and all the trading is short-term in nature. Once again, I pitched the owners, two guys who really believed in me on my value investing advisory idea, and they went for it.

This was in 2010. We started building that out, and it was growing nicely, but their commodities business really started facing challenges. The markets had changed, and that business was dwindling, I decided to break away and just do it on my own. As a note, I'm still on good terms with the owners and one of them actually ended up working for me at TTCM and still does to this very day. And that's how T&T Capital Management came to be in October of 2011.

My right-hand man is Peter Travis, a fantastic business partner and brother, and he was the one who really inspired me to read as a kid. Peter was always the smartest one in the family, taking a fascination with computers and business at a very early age, while my oldest brother Eric and I were more into sports. Many of the clients we had before came over to us. Most of our marketing was through referrals. I started writing for

various websites, mostly Seeking Alpha.com and our newsletter. I have written over 300 articles there, most of which are research reports on stocks. A lot of clients found me from that or had heard about me from friends who had seen my analysis. I did interviews on Bloomberg, CNBC, and various podcasts.

We have grown every year. The only real exception was 2020. That was the worst year ever for value investing because value did horribly, and growth ended up doing really well that year. That was the only year where we really underperformed by a large margin. Not following the crowd doesn't always work, so you have to take the bad with the good sometimes

And now we have a radio show.

Bruce Weinstein and I have been doing business together for nearly a decade. He handles my insurance policies personally, and he's really an expert in insurance and long-term care. We started doing a radio show together in 2023, and it has been wonderful. We've met a lot of people in the southwest in Arizona and California, where the radio shows go. Our companies are separate, but we work together. Bruce is a great person and a true professional with an exceptional work ethic that is rare to find nowadays.

*So, that's my story. In future chapters, we will explain value investing and how options writing can reduce the risk and increase the rate of return.*

## **4. Five Ways To Invest Unsuccessfully**

Warren Buffett's late business partner Charlie Munger was extremely fond of quoting the 1800s German mathematician Carl Gustav Jacob Jacobi, who once said, "Man muss immer umkehren," which translates to "invert, always invert." The idea is that by looking at problems backward in addition to forward, one can identify ways to avoid the problem entirely.

Munger was a very wise man who will be missed. His was extremely sound advice when it comes to investing. His book, *Poor Charlie's Almanac*, is a must-read, in my

opinion.<sup>i</sup> I thought it might be a good idea to utilize Jacobi's principle to sarcastically examine Five Ways To Invest Unsuccessfully:

- Keep your money in cash
- Be a market-timer
- Chase whatever is hot
- Invest in high-fee products
- Panic

## **#1: Keep Your Money In Cash**

Since the creation of the Federal Reserve in 1913, the U.S. dollar has lost roughly 97.8 percent of its value. When market participants stay in cash, they make a clear investment decision. This does not mean that cash is always a bad idea. Still, there is a huge amount of opportunity cost that occurs by the holding of too much cash. 401(k) programs, where huge amounts of money sit in money market funds, are a perfect example of this, as many participants don't really understand that these money markets aren't even likely to keep up with inflation. We recommend that folks keep three to six months of emergency money in cash, but beyond that, surplus money should be appropriately invested.

## **#2: Be A Market-Timer**

The early 20th-century financial titan Bernard Baruch (1870-1965) might have said it best: "Only liars manage to always be out during bad times and in during good times."

Peter Lynch, who managed the Magellan Fund for Fidelity from 1977 to 1990, also said, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

These quotes exemplify my years working in finance and investment, as so much time is spent worrying about short-term trends that the big picture of investing gets lost. This is a great way to invest unsuccessfully while wasting considerable time and energy.

### **#3: Chase Whatever Is Hot**

Stock market history is really a collection of psychological patterns of behavior that replay themselves over time. Typically, it starts with a new technology or service that has tremendous long-term potential, such as AI today. First-movers, who are often insiders or professional investors, generally are the quickest to identify these trends and reap the bulk of the investment returns. At some point, the general investing public identifies the trend and jumps in with increasing force. Depending on when they get in, the stock could continue to trend higher, but ultimately, those who stick around get caught holding the bag when the stock crashes. Usually, it is quite obvious that these stocks are overvalued, but the market participants involved believe they can time it correctly. Please see Rule Number 2 if this describes you.

### **#4: Invest In High-Fee Products**

Nothing spells investment failure quite like investing in high-fee products. These take capital immediately out of your investment and generally place it into that of an intermediary such as a broker, sales representative, or sales manager. Believe me when I tell you that guys like Warren Buffett, Carl Icahn, a hedge fund manager known as a corporate raider for his hostile takeovers of companies, and David Tepper, portfolio manager at Appaloosa, aren't putting their money in load funds, variable annuities, commodity trading accounts, or private real estate investment trusts. Those products often carry substantial costs and conflicts of interest, but the reason they are not publicized as much is because of the huge amount of money backing those products. Exchanges and regulatory agencies, let alone financial firms and sales reps, have extensive conflicts of interest that perpetuate the issuance of such products. This doesn't mean that an individual fund or private real estate trust can't make money. Generally, however, there are better investment options with far lower costs. When you invest in high-fee products, your odds of successful investing decline in direct correlation with the percentage of fees being charged.

## **#5: Panic**

At T&T Capital Management, we are buying securities that are trading at discounts to their intrinsic value. The idea is that over time, the discount on intrinsic value will correct itself, leaving us with the expectation of making a profit. We aren't making a prediction about the next week, month, or quarter even. If you buy a stock, you should expect volatility. I can guarantee that over time, you will experience volatility in stocks, which, by definition, means short-term losses. It is completely insane to buy stocks as an investment and panic when you face short-term mark-to-market losses that have nothing to do with fundamentals. You should have been expecting that at some point before you even bought the stock in the first place. Sure, it is human nature to feel fearful, particularly if you are new to investing or lack confidence. But fighting the psychological battle and understanding the definition of investing is absolutely essential if you want to actually be successful over the long term. Panicking results in market participants getting out of securities when they are cheap and getting in when they are dear in price. The pattern tends to repeat itself continuously. Panic and market timing often go hand in hand with one another.

## **Summary**

If you, as an investor, can avoid these pitfalls, you are significantly increasing your odds of outperforming over the long term. Markets are filled with noise and emotion. But the key to investing is having the discipline to only focus on the issues that are important to drive your investment returns. How is the business performing, and what price am I paying for the security? Does the security trade at a significant discount to intrinsic value and provide me with a strong margin of safety? These are just a few of the key questions that should enter your mind in periods of panic. These inverse rules are employed by us at TTCM to avoid critical investing mistakes. We leverage comprehensive research and analysis to identify the companies that are trading at large discounts to intrinsic value.

## 5. The Fundamentals Of Value Investing

Value investing is a broad term, but the concept is basically the idea of buying securities at a discount to “intrinsic value.” By doing so and by being willing to take a longer-term approach, the value investor is able to invest with a large margin of safety and also achieve better investment returns.

It is important to understand that most buying and selling in stocks and bonds does not qualify as investing. Many market participants are traders or speculators focusing on short-term issues such as momentum, technical indicators, and trend following. These activities can be profitable, of course, but they don't meet the basic definition of investing, which Benjamin Graham described in his investment classic (*Security Analysis 1934*): “An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative.”<sup>ii</sup>

Securities such as stocks are fractional shares of an underlying business. To invest competently, one must start with an emphasis on the financial statements and also understand the strengths and weaknesses of GAAP (Generally Accepted Accounting Principles).

One key difference between the way that most analysts evaluate securities and the way that we at T&T Capital Management invest is that most analysts focus extensively, if not exclusively, on earnings and estimates of future earnings in their analysis.

Once that analysis is concluded and it is determined whether the analysis is above or below the consensus estimates, it is necessary to put a multiple on the earnings to determine the appropriate price for the stock to trade at.

For example, let's say that you have a company like Procter & Gamble (PG), which you believe will likely earn \$10 per share in the next twelve months.

Historically, PG has been a very high-quality business with high returns on invested capital and adequate earnings growth, and the company pays a dividend of around 3 percent in this example. Historically, a company like this might sell for sixteen to eighteen times earnings. At other times market participants have shown a willingness to pay twenty to twenty-five times earnings.

The problem with this type of analysis and investing is that it only pays attention to the income statement and earnings, which can be highly volatile. In addition, the analyst is basically assuming the company doesn't engage in investing or financing activities such

as acquisitions, spinoffs, mergers, etc. The reality is that most publicly traded companies do engage in these types of activities.

At TTCM, our approach to investing begins with a focus on the balance sheet where we determine the net asset value of the company. For some companies it may be necessary to adjust for goodwill or intangible assets if they overstate the value.

By focusing on the balance sheet first, the investor can be careful to ensure that he or she is investing in financially strong businesses. Then, we at TTCM follow the free cash flow, the money left over for shareholders for dividends, stock buybacks, acquisitions, and debt reduction.

While free cash flow generation is obviously highly desirable for investors, the use of that free cash flow in investment activities is as important. Many companies engage in activities that destroy shareholder value, such as overpriced acquisitions (see Hewlett-Packard's acquisition of Autonomy or a major U.S. bank's purchase of Countrywide) or stock buybacks when their stock is already overvalued. Bull markets may ignore poor practices, but as Warren Buffett would say, "It is only when the tide goes out that we see who is swimming naked."

Bull markets are the result of corporate earnings growth and market participants' willingness to pay higher multiples for common stock. Interest rates play an extremely important role. When the yield on the ten-year Treasury eclipses the earnings yield on the S&P 500, it is a signal that bonds are more in favor than stocks, as equities could be due for a big fall. Such a condition exists as this book is being written in early 2025, so we'll see how the S&P 500 performs over the next five to ten years.

With all of this said, how does it relate to the current market environment? By focusing on fundamental finance, we can identify undervalued businesses that can benefit from both improved earnings and higher valuations, whether interest rates go up or stay low. This is the benefit of investing in individual stocks, where you know exactly what you own, as opposed to investing in index funds or mutual funds, where you are basically investing in the market or sectors of the market. There is usually some type of opportunity, often in beaten-up sectors that have been hurt by short-term headwinds. Currently, commercial real estate investment trusts are really cheap, with many offering dividends of 6 to 8 percent, which should grow steadily over the long term. The valuations are at 40 percent discounts to historical levels, offering large growth prospects if we see some mean reversion, likely brought on by lower interest rates.

Despite the S&P 500 trading at record-high valuations, the majority of the companies that we own trade at discounts to our estimates of liquidation value, and most should see higher earnings and dividends three years from now if rates are higher or lower.

While bear markets occur and they can take most stocks with them, over time it is the value of the businesses that matter. If our companies, which we bought at large discounts to intrinsic value, begin to increase their intrinsic value over the next three years, we are not only likely to avoid losing money, but we should end up doing quite well. This is exactly what happened from 2000 to 2003 when the NASDAQ dropped from 75 percent from peak to trough, but many value investors did extremely well in individual stocks. It also encapsulates Benjamin Graham's concept of the Margin of Safety, which we have mentioned several times in this book. According to Pzena Funds, the only five-year period in which the market was as concentrated as it is today was during the dot-com bubble of the late 1990s. During the following five-year period, as the bubble collapsed, value stocks substantially outperformed expensive stocks (per Pzena Funds research; specific magnitudes vary by methodology and period). Time will tell if history repeats as the stage appears set for value outperformance.

"Basically, price fluctuations have only one significant meaning for the true investor. They provide him an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times, he will do better if he forgets about the stock market." - Benjamin Graham

Value investing is the practice of buying a security at a substantial discount to its intrinsic value. If a business is worth \$1 million and you are buying the business at \$500,000, there is generally enough of a margin of safety. Value investing and growth investing are often interrelated because understanding a company's growth prospects is vital to understanding the appropriate valuation.

Value investors accept that the investment methodology does not protect against short-term mark-to-market losses but instead focuses on keeping permanent losses of capital to an absolute minimum. Warren Buffett often says that his number one rule is to not lose money, and the second rule is to not forget the first.

At T&T Capital Management, we only invest in businesses that are within our circle of competence. We must be able to understand the company and the industry that it competes in.

We find that often, the most attractive opportunities emerge in securities that are in out-of-favor industries dealing with short-term headwinds. Earnings may recover several

years from now, but because of Wall Street's short-term bias, these securities fall out of favor.

We pay particular attention to capital allocation, which is our specialty and can add tremendous value for shareholders. For example, a financial guarantor we'll call Stock XYZ has been a large investment of ours since we started on our own, highlighting our long-term investment philosophy. The management team has done a brilliant job, buying back nearly 75 percent of its shares over the last decade, all at large discounts to intrinsic value. This has had an incredible impact on growing the company's book value and intrinsic value metrics, leading to strong long-term operating results in a challenging industry.

We're focused on maximizing risk-adjusted returns. This means that we rank each security based on risk-adjusted return potential and then position-size them accordingly in our clients' portfolios.

"Wide diversification is only required when investors do not understand what they are doing. Diversification is a protection against ignorance. It makes little sense for those who know what they're doing." - Warren Buffett

The three primary ways of generating significant outperformance are through better security selection and/or strategy, higher concentration on specific securities, and higher leverage. At T&T Capital Management we spend an enormous amount of time and energy in the research and analysis process. Once we've identified extremely attractive securities that offer a large margin of safety and attractive profit potential, we are willing to bet big. An investor only needs a few great investments in a lifetime to get rich.

Often, market participants are unwilling to accept losses. At T&T Capital Management, we never sell a stock simply because it has declined in value based on short-term market-to-market movements, but we will sell a stock if our investment thesis proves to be incorrect. Because all of our investment decisions are derived from calculating the intrinsic value of a business, there are tangible metrics that we can assess to see if we are right or wrong. One example was Sears Holdings. The stock had incredible assets, primarily in its immensely valuable and sprawling real estate portfolio. The problem was that the actual retail operations were bleeding cash that management could not fix, nor was it feasible politically to simply liquidate such a massive company, creating tens of thousands of unemployed. Ultimately, the company declared bankruptcy, but fortunately, we had gotten out long before and made great money on some of our bonds and option positions in the stock.

It is often normal for stocks to fluctuate by more than 50 percent over a given one-year period, but the reality is that business values change much more slowly.

“More money has probably been lost by investors holding a stock they really did not want until they could ‘at least come out even’ than from any other single reason.” - Philip Fisher

There are huge amounts of money dedicated to promoting a short-term, sales-oriented culture that is completely out-of-line with actually generating the best investment results. Value investing doesn't generate a lot of commissions for brokerages and the investment managers that use the strategy typically don't charge the highest fees.

At T&T Capital Management, our focus is and always will be on the client. We won't deviate from our deep value investing philosophy even when we look silly for believing in it when other strategies become more in favor.

Too often market participants are like sheep heading for slaughter as the wolves of Wall Street pitch high-fee products to make their sales bonuses. We charge a simple one percent to two percent a year on assets under management. There are no redemption fees, so if we don't give you the performance and service you are looking for, you can leave at any time. We can buy any security for you and our compensation structure always stays the same, which eliminates any concerns over conflicts of interest.

*I will leave for another chapter our strategy of selling covered puts on the stocks we own to give us an extra margin of safety.*

## **6. The Squeeze On Savers**

Starting during college, I began having dreams that it was exam day, and I couldn't find the classroom to take it. This stemmed from not attending class as often as I should have, preferring to read on my own or engage in the many other activities offered at UC Santa Barbara, possibly including the vast party scene. Many retirees have shared with me that they have a nightmare about running out of money. Others maybe should be

having that nightmare but are naïve to the financial realities facing them given their lack of preparation for retirement.

Escape is not so easy for those trapped in a real-life nightmare we call the squeeze on savers.

Financial planners view life in two broad phases: the accumulation phase and the distribution phase.

Accumulation is the phase where people benefit in the job market. They accumulate things and have children, requiring more and more spending. As income grows, they may buy or “accumulate” a house or a second or third car, as well as lifestyle additions: music or dance lessons, orthodonture commitments, and summer camp. After hopefully surviving the mountain climb called college expenses, free cash flow grows as they transition into empty nesters enjoying peak earning power.

Retirement flips the equation. It brings on the distribution phase. Active income, such as employment, may come to an abrupt halt. Some of the household clutter disappears. Maybe your son’s surfboard or motorcycle is given away. The doll collection, once so important to your lovely daughter, finds a needy home. And life’s seasons change.

Retirement, unless abruptly forced on one, is a decision based on assets and the income stream from savings, Social Security, and perhaps side gigs. It is also based on projected expenses.

What happens if there is severe inflation or unforeseen medical expenses? Yes, that is the squeeze on savers: How can you make your savings earn more?

A classic case of retirees squeezed on their savings occurred with two of my long-term clients. Both the husband and the wife had aggressive dementia, transforming them from dynamic and doting grandparents to highly dependent and compromised. Compounding the situation tenfold, the wife had fallen for a financial scheme, losing nearly a hundred thousand dollars without telling the husband or me until it was way too late. As dementia progressed, both clients required extremely expensive long-term care.

We had proposed long-term care insurance on many occasions prior to the onset of dementia, but those efforts were rebuffed, as they thought their kids would be able to take care of them in the worst-case scenario. Unfortunately, those kids now lived out of state.

Fortunately, our investments had done well, and the clients were able to cover costs for their at-home medical care and living expenses. We utilized our conservative income-generating options strategies and used the rising interest rate environment to procure more income from the bond portfolio. Ultimately, the husband had to move into an expensive home as his illness became more severe. The wife absolutely refused to sell their home, which I can understand and respect, but it caused problems as their cash was running low. The solution was a reverse mortgage to tap into the equity of the home. The children had homes of their own, so leaving it as a legacy to their heirs wasn't a big concern. This allowed the couple to fund their long-term care needs.

I don't often recommend reverse mortgages as they can be very expensive and often lead to the house going to the lender at the end of the term. Usually, there are better options, but if someone doesn't want to vacate their home, it can be a good last resort option, which it was in this case. Downsizing is usually a more responsible choice when possible, as it generally makes it easier to preserve more of your estate for your heirs if that is important for you.

Other savers are being squeezed in the current inflationary environment, and it is not clear which will come first: a pendulum swing in economic conditions or reluctant changes to savers' personal finances. We have gone through a period of high inflation. Interest rates have had to rise rapidly to combat that inflation, leading to trillions of dollars in losses for those invested in long-term bonds, many of which are owned by retirees. This was the result of those cookie-cutter financial plans, where hindsight saw only gains from bonds, as the prior thirty years consisted almost entirely of a declining interest rate environment.

History tells us that the Great Recession of 2006-2008 had lingering effects. Stock prices ultimately tripled from their March 2009 lows, but savers were still being squeezed by low interest rates.

Savers increasingly invested higher amounts than they were comfortable with into equities because the low returns at the time had become so unattractive. Some had turned to index funds and ETFs, which are generally 100 percent long in the stock market.

With the risk involved, I felt the story could end very badly.

Our firm was launched while savers were still suffering from the effects of the Financial Crisis. It seemed like everybody was searching for alternatives to equities and equity risk. Television commercials touted gold or annuities. Market participants seemed to be obsessed about a secular bear market in stocks which was expected to last a decade or more.

During that time, we were able to buy incredibly high-quality franchises such as Microsoft (MSFT), Philip Morris (PM), Johnson & Johnson (JNJ), and United Health Care (UNH) at eleven to thirteen times through earnings. With the passage of time, these stocks were trading in the mid-twenties on earnings, probably closer to their peaks than their troughs. Even Microsoft was purchased for about twelve times free cash flow, when now it trades above thirty times.

Opportunities abound today in healthcare, real estate, energy, and specific out-of-favor companies. The market overall trades at one of its highest valuations in history, with a price to book that is actually higher than in 2000. Many will say artificial intelligence and the productivity gains that it will enable make valuations more manageable, but the same was said about the internet. Stock returns have rarely been good five to ten years out from valuations this extreme, but most investors think they will still earn double-digit returns on average, which seems unlikely.

Bonds have had their worst and longest drawdown in recorded history. This has caused many investors and advisors to forsake them, once again looking into the rear-view mirror, but they might be doing so at the worst time. Bond yields are some of the highest we have seen in over twenty years, and if we do go into a recession, rates are likely to decline, leading to big gains in bonds, and other beaten-up sectors such as REITs.

For retirees, and really for any other investors, a contrarian approach can be the difference between meeting your financial goals or coming up short.

We, as always, continue to keep communication open and fully understand that people will have questions. They should not hesitate to contact us directly.

## **7. Maximizing Risk-Adjusted Returns**

Warren Buffett's first rule of investing is to not lose money. His second rule is not to forget about the first rule. For those of you who have been with us for years, you have heard us talk a lot about maximizing risk-adjusted returns. Our deep value strategy is designed to utilize a variety of tools to position ourselves toward generating better-than-average long-term returns across market cycles.

After the Great Recession, many market participants took quite some time to get out of the fog and fear that was brought on by that financial cataclysm. During times of peak pessimism, we at TTCM took meaningful long positions based on our deep value analysis.

We found a variety of compelling opportunities in various sectors and had the conviction to invest for the long term against the tide of those who focused only on short-term concerns.

We are probably best known for the large positions that we took in financial companies such as a financial guarantor we'll call Stock XYZ, MBIA Inc. (MBI), Morgan Stanley (MS), a major U.S. bank (the bank), the bank in our analysis (C), and American International Group (AIG).

These were positions we held with conviction at the time, based on our deep value analysis.

While many market pundits and analysts considered these companies "un-investable" at the time we were buying into them, our analysis showed that we couldn't envision a scenario where we would lose money. After these stocks went on to double, we saw some of the same pundits pounding the table to buy these same "un-investable" names.

By buying stocks at large discounts to a conservative estimate of liquidation value, our downside was as close to nothing as any investment that we could find.

As we looked at the cost-cutting and strong credit metrics, we realized that as the troublesome legacy assets became a smaller part of the overall financial picture, these stocks had the potential to at least double. They were also in one of the few areas that would benefit from an era of higher interest rates due to the earnings leverage that they had via net interest margins and investment income.

Lesser known to those outside of TTCM, we also identified opportunities in other areas such as European Telecoms, large-cap technology, airlines, and auto manufacturers. As we get more and more experienced as investors, we find ourselves able to keep expanding our circle of competence, which is another term that Buffett uses often. For a very long time, Warren Buffett avoided investing in tech stocks because he didn't feel like he understood them enough. Over time, though, he got more comfortable, and his greatest investment success to this day was his investment in Apple, which is one of the most lucrative investments in history.

As value investors, we are willing to look anywhere at any securities that we fully understand, and that offer the best risk-adjusted return potential. By concentrating our portfolios on positions with incredibly low risk and high return potential, we were maximizing our risk-adjusted returns in a very powerful manner.

It is important to understand that there are always tradeoffs in the investment world. While our focus on minimizing permanent losses of capital and attempting to generate the largest returns makes sense for our clients, the short-term tradeoff can entail increased volatility. Many market participants wrongfully equate volatility as being equal to risk, as opposed to what it is, which is the movement of short-term market prices. Stock prices change every single business day, while the underlying businesses change value at a much slower rate. Because the average stock price can easily change by 50 percent to 60 percent in any given year, the prudent investment analyst can buy stocks as the prices get much cheaper than intrinsic value and sell as they appreciate past net asset value.

This is the basis of value investing, and the concept of only investing with an adequate margin of safety is one major way that we maximize risk-adjusted returns.

A second way that we maximize returns is by selling long-term put options on value stocks. At times, stock and bond valuations both can become stretched to worrisome levels. If inflation threatens to break out of control, interest rates can head higher faster than most market analysts are pricing in. In this scenario, considerable damage would be caused to current bond prices and would likely result in the market assigning a lower P/E ratio to stocks. There is also a very real probability that returns would actually be

negative for passive investors who believe it is wise to be 100 percent long the market in spite of valuations being at such elevated levels.

At TTCM, we can utilize our fundamental analysis to identify the few securities that continue to trade at a large discount to their intrinsic value even in a climate of very pricey stocks. In addition to owning those stocks, we can sell long-term puts often out of the money.

What this means is that we collect a option premium for accepting the risk of owning stocks that we want to own at cheaper prices. If the stock expires above the strike price of the puts that we have sold, we keep our premium, which is usually a very attractive annualized rate of return, which is often in excess of what we expect either stocks or bonds to achieve.

Our “worst” case scenario is that we end up owning these stocks for the long haul, which we are bullish on anyways, at a much larger discount to prices that we could buy them at currently. In this “worst” case scenario, we are positioning ourselves for the maximum upside potential because then we get 100 percent of the upside potential via owning the stocks.

This is a powerful strategy that very few managers or advisors use.

When selling longer-term put options we often are able to exit the positions long before expiration, allowing us to achieve far higher annualized returns than what we targeted initially. Options are often quite liquid and can be traded like stocks. A big benefit is that they add an element of timing, with an expiration date. It's very common to own a stock, have nice gains that ultimately get wiped out or even turn into losses as the market cycle changes. Options can allow you to lock in profits more simply than with stocks, where if you sell too early, you can give up large percentages of the gains. For those super tax conscientious investors, options can be fantastic in a tax-deferred or tax-free account such as an IRA or a Roth. Even in a taxable account though, they very often can make great sense to enhance income, reduce risk, and instill a higher probability of success in entering into stock positions.

Here is a past example of how this can work.

In December of 2016, we sold January 2018 thirty-dollar puts on a financial stock for about four dollars per contract. At the time, the stock was just above thirty dollars, which we owned as well. If the January 18 thirty-dollar puts had expired worthless, our return would have been \$400 on a maximum risk of \$2,600. The maximum risk is calculated by taking 100 shares times the thirty-dollar strike price and subtracting the premium that

we collected.  $\$3,000 - \$400 = \$2,600$ . This \$400 would create a return of roughly 15.4 percent on the maximum risk of \$2,600.

On a risk-adjusted basis, this strategy is very safe.

In the actual case, we sold the puts in December and the stock climbed by quite a bit. In just a few months, the Jan. 2018 thirty-dollar puts were selling for ninety-six cents. This means that we had an unrealized gain of \$304 out of \$400, or 76 percent of the target profit, in about one-sixth of the time that we had the potential to hold onto the option. Our annualized returns were around 50 percent instead of the target return of 15.4 percent. So, then we had the choice of buying back the sold put and freeing up cash for a new investment or keeping the low-risk option to make the remaining ninety-six dollars of profit.

We had a rinse-and-repeat choice.

Those opportunities come up frequently.

While this may sound complicated, we take great pride in openly communicating with our clients and helping in the investment education process. For the vast majority of clients, we are the ones doing these trades for them. Usually, when clients realize how selling put options on value stocks works and how attractive it is, they ask me why more advisors don't do it.

Well, there are several reasons:

- Many advisors don't practice value investing or don't have the acumen to properly analyze securities.
- Some advisors don't understand how the options actually work.
- Many advisors don't have the long-term discipline.
- Many mutual funds, ETFs, and most advisors don't have the freedom within their companies to implement alternative strategies such as this. (This was a major reason I decided to go out on my own and start T&T Capital Management.)

In summary, we always adjust our strategy to market conditions but maintain a strict focus on our deep value investment formula. By focusing on the fundamentals, we are agnostic as to whether we invest in stocks, bonds, options, or warrants. All we care about is maximizing risk-adjusted returns for our clients' hard-earned capital.

When volatility increases, option prices tend to go up, leading to lucrative opportunities for options sellers like us. You can collect higher amounts of premium, while also having more protection against loss.

These options strategies aren't perfect, of course, like anything. In periods of prolonged stock outperformance, such as the 1990s, or even this most recent decade, they can underperform. Conversely, these strategies tend to hold up far better in down, flat, or slightly up market environments. Over the long-term cycle, we love the risk-reward in combination with our other strategies, including long-term stock investing with a value-driven philosophy.

We are not interested in being long just because others are doing so but instead want to protect and grow capital.

Chasing bubbles always ends terribly; just ask those who watched their technology holdings decline by 80 percent in the early 2000s. In a down, flat, or market up by 10 percent or less, we believe our strategy is positioned to perform competitively in such environments, though no outcome is guaranteed. One note of warning: Covered call strategy funds are getting more popular, and they often chase the hottest stocks at the time, such as Nvidia, Tesla, or even options on Bitcoin. These can be very volatile assets, so having 10 to 20 percent protection might not be nearly as beneficial as it is on a much more deeply undervalued security, which is the arena that we are playing in.

As always, time will tell, and nothing is guaranteed, but we believe in our approach, and many of our clients share that confidence.

## **8. Why Mutual Funds Are Sometimes The Wrong Way To Go**

You have heard it so many times and from so many of the most prominent people in finance: Find a mutual fund that mirrors a broad index such as the S&P 500. Make sure the fund has rock-bottom fees. This is a long-range strategy that works over the long run, in years, not months. There is plenty of statistical evidence that, over the very long term, it works. This strategy does have its own share of holes, however. For one, it is valuation agnostic. Being a 100 percent long-only investor means that you are still 100 percent long when the index is in a massive bubble.

Are you prepared for a 30 to 80 percent drop, and can your financial circumstances deal with that? How about if you are already retired? Most people cannot stomach that type of volatility. Pick a year, any year, as the starting point. Maybe 1928, before the Great

Depression. Or 1986 before the bottom dropped out in '87 on a horrendous day that had the experts shaking their heads in disbelief.

Choose 2000 before the Y2K computer panic or 2005 before the calendar was flipped for the Great Recession, showing the foolishness of poor real estate lending practices, even downright fraud, and the folly of experts trading in sophisticated financial instruments that even they did not fully understand.

Yes, so many of the investors I look up to are right: Don't bet against the power of the American economy, backed by abundant natural resources many nations lack—the ingenuity of Americans, both natives and immigrants, operating in a free society over the long run.

Warren Buffett, the late Charlie Munger, and John Bogle pioneered the concept for Vanguard and many a financial advisor in mid-America. Choose an indexed mutual fund with rock-bottom fees and stick with it. Ignore those who say that deviating somewhat from the index to achieve over-performance obviously merits the reward of higher fees.

The problem is that years of sticking with just this strategy will try your patience. Fear will build, and eventually, you may panic, almost precisely on the eve of the market turning.

Indexed mutual fund ownership is a tool but not your only tool. It is a good friend, but it should not be your only friend.

There are ways to diversify your portfolio, to add assets that don't plunge when or as much as the market does. There are ways to build your self-confidence through education before the next crash, the next giant bubble popping, the next shock to the system coming from out of nowhere.

We'll cover them in future chapters of this book. At T&T Capital Management, we help you through our weekly newsletter, our consultations, and our introductions to other clients who have found our approach can lead to better results.

I do like the indexed approach—to a point, but...

Here's why.

I graduated from the University of California Santa Barbara in 2004, and my dream was to work for a large investment firm so that I could learn the business and move up the ladder. When an opportunity came around for me to work at the Vanguard Group, which is one of the largest mutual fund companies in the world, I moved to Scottsdale, Arizona, where the position was available.

Vanguard is a great mutual fund company that is known for its low fees, but during my short experience there, I became extremely disillusioned with the fund industry. I feel that a tremendous amount of savings and retirement funds are squandered as a result of the relatively poor performance and opportunity costs that come with investing in mutual funds. From 2000 to 2010, there was a lost decade for the indices, and investors had to overcome two 50 percent drops to achieve that. As we fast forward to the current market environment, I think it is very likely we will encounter another lost decade.

Frankly, I don't usually recommend managed mutual funds because funds underperform the indices, and most investors in these mutual funds do even worse than the actual funds.

Most mutual funds are totally over-diversified. It is very common for mutual funds to hold sixty to five hundred different positions. Statistics show that if you throw a dart thirty-five times against a wall containing all S&P 500 stocks and hold on to that portfolio, your returns over time will track the S&P 500 within 3 percent.

By holding a large number of securities within a specific guideline, most mutual funds are basically closet indices, which makes it extremely difficult for them to outperform. Mutual fund companies are obviously aware of this, so they invest a tremendous amount of money and time to market themselves and build relationships with clients. Poor-performing funds are often shut down, and new funds are created to make for an easier sales pitch. I know of a company that had dozens of commodity trading funds with very low assets under management using various strategies. When one worked, showing strong recent returns, they would market the heck out of it, luring in investors at what almost always ended up being the worst time, as the strategies began mean-reverting. In one egregious example, I saw a so-called high-flying fund lose about 76 percent of its investors' money within two months. It was absolutely pathetic, but sadly it was very predictable if you researched the strategy and the fees that came with the fund.

The reality is that most market participants would be more successful in an indexed fund than with an active mutual fund manager. There are some notable exceptions, such as the Peter Lynches of the world, but in general, market participants can do better in an index fund.

Mutual funds can have costly fees despite the generally lackluster performance. Typically, fund fees average from 1.3 percent to 1.6 percent annually, while many also have "front end" load fees and "back end" load fees, also called redemption fees. Clearly, there are costs to managing money and handling the heavy regulatory burdens that exist in the mutual fund industry, yet when performance is generally poorer than the

overall market, these fees cannot be justified. If you are investing in an overly diversified mutual fund that is also charging these fees, as most mutual fund investors do, you are almost assuring yourself of underperformance.

Understanding this was a big reason that I determined that a career in the mutual fund industry was not in the cards for me. I know how hard people work over entire careers to accumulate assets, and putting those assets in funds that are likely to underperform is not something I could ever promote.

Psychologically, fund managers' investment performance is measured against a particular index. Even short-term significant underperformance can be a career-ending problem for most mutual fund managers, so there is a tendency to mimic the indices as much as possible to reduce the risk of that. We've already shown that this is a recipe for long-term underperformance. In addition, most managers of regular funds feel compelled to chase hot-performing sectors and stocks to keep up with their competitors.

Let's say that Apple has doubled over the last year and is a glamour stock that is known by most investors. If an underperforming fund manager doesn't own the stock, there is often a fear of how that is perceived by the fund investors since "everybody knew that Apple would go up."

This is why it is well known on Wall Street that fund managers do "window dressing" at the end of quarters where they will often buy hot-performing securities because when they report the holdings to the investors, they want to show that they have been in these exciting stocks even if they were just added to the portfolio. This false pretense of owning hot-performing securities means that fund investors stand the chance to pay the price when the stocks go down without having previously received the benefit of the appreciation when the stock ran up.

Fund managers are forced to retain a reasonable portion of cash to handle fund redemptions. The amount can be as low as 3 percent to as high as 20 percent. This cash is often a weight that drags portfolio performance down because that money is not invested in the markets.

Astute fund managers or investors I admire in money management tend to hold a lot of cash when securities are overvalued. As I write this, Warren Buffett has recently liquidated about 50 percent of the stock portfolio of Berkshire Hathaway, much of which was a large percentage of their Apple shares. However, holding cash due to institutional needs such as redemptions is just another negative for investors in managed mutual funds. Especially during record-low-interest rate environments when cash gets paid very little. At this writing, we appear to be coming out of a high-interest rate era caused by

the lockdown-inspired stimulus packages that inflated assets globally. Many savers have finally started to benefit from the higher interest rates offered, but much of that additional income is being eaten up by inflation, unfortunately.

Many mutual funds have very high turnover, which can increase the costs of the fund and also raise the amount of short-term taxable gains the fund passes along. Even worse, many fund investors have to deal with the burden of “phantom gains,” where new investors to the fund are forced to pay for gains made by the fund on positions that existed prior to them joining the fund. If you invested in a mutual fund in November, do you really want to pay the taxes on the gains it made earlier in the year?

That’s why I feel the odds are stacked against most mutual fund investors. Just as many professional investors tend to have psychological issues that cause them to chase performance, individual investors in mutual funds tend to do the same thing. Many mutual fund investors base their investment decisions on past performance, which often means that the investors are buying high and selling low. Even the best money managers underperform over short periods of time, so leaving a manager based on a poor short-term track record can be a costly mistake.

Conversely, even a blind squirrel finds a nut sometimes. A fund that has a strong short-term performance record might have stocks that are temporarily in favor and are destined for a decline. Industry-centric funds such as technology, energy, or financials can go in and out of favor, so chasing performance can be a very dangerous proposition.

There are better alternatives.

Warren Buffett has become one of the richest men in the world, using a deep value-based investment strategy. He buys stocks and businesses that trade at deep discounts to intrinsic value. That takes extensive research and analysis. Value investing makes a lot of sense, and if you don’t have time to perform the rigorous analysis yourself, then it is helpful to find a professional who can do it for you. At my firm, T&T Capital Management, we specifically tailor our clients’ investment portfolios based on their objectives and risk tolerance.

We employ a deep value approach. We focus our investments on securities that offer the best risk-adjusted returns, which means that we will have a different performance than the indices. This can lead to periods of short-term underperformance, but we believe that it is a modest price to pay for the potential of outsized long-term performance. We don’t rely only on stocks, as we have other tools we can use when

attractive opportunities come up. Bonds, warrants, and stock option strategies such as covered calls on the stocks we own.

These may improve a portfolio's risk-adjusted profile and can allow you to potentially outperform in flat and down markets as well.

## **9. Three Pillars Of Protection**

Understanding that markets are inherently volatile prior to beginning an investment operation is imperative. This means that when an investment operation is undertaken, there should be a clear and thoughtful strategy to both protect the portfolio and maximize risk-adjusted returns prior to even getting started. This is certainly the case when you invest with T&T Capital Management, and I will explain how by illustrating our three pillars of portfolio protection.

To quote from the great Benjamin Graham: "The individual investor should act consistently as an investor and not as a speculator. This means that he should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning that satisfies that he is getting more than his money's worth for his purchase."

### **Pillar 1: We Almost Always Buy Financially Strong And Profitable Businesses**

This means that the companies that we buy usually don't need constant access to outside capital, so they aren't likely to face a liquidity squeeze or similar cash restraint.

It also means that the companies generally are earning returns in excess of their cost of capital and are growing in value. This means that when the stocks are declining in price, the margin of safety is increasing; the intrinsic value of the business is also actually growing at the same time, which creates even more upside potential and less long-term risk.

This approach is quite different than buying a glamour stock at an extremely high multiple of earnings, cash flow, and/or book value. Often, these stocks are losing money or have absurdly high expectations associated with their valuations, when in most cases, the actual business results disappoint over the long-term, except for rare exceptions such as Google or Apple.

Even after overpriced glamour stocks decline, there is still no margin of safety, creating a situation where the market participants holding the stock must either keep owning in the speculative hope that the stock will rally again or sell and lock in a permanent loss of capital because the stock very likely may drop further.

## **Pillar 2: Stocks Are Fractional Shares Of A Business**

Every business has a balance sheet, an income statement, and a statement of cash flows. Every business also has certain qualitative characteristics, which may or may not offer it certain advantages or disadvantages versus competitors.

Before entering into an investment, we arduously examine both the qualitative and quantitative characteristics of the business. Then, we will only buy the business if we can acquire it at an extremely large discount to our estimate of intrinsic value. By purchasing the business at a large discount, we are providing the largest margin of safety possible, in addition to allowing for maximum upside potential as the gap between the stock price and intrinsic value is realized over time.

Purchasing businesses at a discount to intrinsic value doesn't eliminate short-term mark-to-market risks, but as long as our analysis is correct, this practice should greatly diminish the risks of permanent losses of capital over reasonable time spans.

## **Pillar 3: We Regularly Sell Cash-Secured Puts On Stocks That We Want To Own, As Well As Covered Calls On Stock We Are Willing To Sell**

Cash-secured means that the cash is put up when we set the trade, so there is no risk of a margin call, as opposed to when one uses leverage. Cash-secured puts and covered call strategies are risk-reduction strategies, with cash-secured puts actually being the safest strategy to use.

*(A put or a call controls the right to sell or buy 100 shares of the given stock at a specified price until a specified date. Selling a put means someone can purchase the right to sell your stock at an even lower price if it reaches that level before the expiration date.)*

We use these pillar-three strategies with stocks that meet our first two pillars of portfolio protection. By selling the put, we collect a premium for being willing to own the stock at a cheaper price. We only do this when the premium is attractive to us, which can translate into attractive annualized return potential on the maximum risk on the maximum risk.

Our worst-case scenario is that we will end up having to buy the stock at an even bigger discount to our estimate of intrinsic value. The premium from the put provides us with a cushion before we take losses on the stock, assuming that we hold the option until expiration if the stock does indeed expire below our strike price.

## **Here is a hypothetical example of how this all works together:**

Company XYZ has a book value of seventy-five dollars and is trading for fifty dollars. We believe book value in this example is a proxy for liquidation value. Therefore, the price of fifty dollars provides us with a strong margin of safety. The company is earning about 10 percent on equity, which it is retaining, so the intrinsic value is probably also growing by about 10 percent per annum.

First of all, we would buy the stock. If the stock declines, the static margin of safety increases. As time elapses, XYZ's earnings accumulate, the balance sheet strengthens, and the intrinsic value grows. This not only reduces risk but also improves our upside potential. This means that as the stock declines, we would be wise to buy more. We certainly would never want to panic and sell, as the opportunity is actually getting better.

Our philosophy is that value investing is the only sensible investing approach because other investing is really akin to speculation on price movements without the same fundamental backing this type of analysis provides.

We know that stocks don't go straight up despite buying at a great price, so we tend to not buy all of our stock in one gulp. Often, we will either dollar cost average or sell cash-secured puts, which, in our estimation, are an even more attractive way to dollar cost average.

On Stock XYZ, we might sell a fifty-dollar put expiring in one year for seven dollars per share. Assuming that we hold the option until expiration, one of two things can happen:

- If the stock expires above fifty dollars, we will keep the \$700 premium on the \$4,300 of maximum risk. ( $\$50$  strike price  $\times$  100 shares per contract = \$5,000-\$700 premium collected.) This equates to a return of 16.2 percent on the maximum risk in a year, which is a fabulous result.
- If the stock expires below fifty dollars at expiration, we will own the stock at a break-even of forty-three dollars per share. This means that the stock can decline by 16.2 percent by expiration before we would even lose a penny, as long as we hold until expiration. This is another reason why it is important not to worry about short-term price movements. Remember that we believed the stock was worth seventy-five dollars initially, and if the company meets our target of a 10 percent return on equity or ROE, the intrinsic value would have grown to \$82.50 now. So, our return prospects are even greater, and our risks are that much lower. This scenario where the stock declines, allowing us to buy at even better prices, often results in the best long-term gains for us.

These are TTCM's three pillars of portfolio protection. Following them should provide you with the framework and education to not panic when markets decline. These pillars were modeled after the investment philosophies of the most successful investors of all time, with Warren Buffett being very prominent among them.

While nothing is ever guaranteed, I'm confident that these pillars offer the best risk-adjusted return potential out there, which is why I invest my own personal money the same way as I do for clients.

## 10. Warren Buffett's Wisdom On Selling Stocks

An interesting quote came from Warren Buffett after a Berkshire Hathaway annual shareholder meeting. He was explaining why he had sold a chunk of his Apple stock.

"I don't mind at all, given current conditions, building our cash position. When I look at the equity markets and the composition of what's going on in the world, we find cash quite attractive."

Buffett knows that his words can move the market and from decades of studying him, this is about as bearish as he talks publicly. The fact of the matter is that equity valuations as a whole are quite expensive. Stocks such as Apple, which are showing very little actual growth, are trading at more than double their historical valuations. This doesn't mean that they are bad investments necessarily, but it does show that there isn't the same margin of safety, which we, as value investors, look for to ensure we are complying with rule number one: not to lose money. Not too long ago, Apple traded at twelve times earnings, when people questioned the company's ability to move beyond the iPhone.

When Buffett says he is raising cash, what he is mostly saying is that he is buying short-term debt securities, including Treasuries. We have not had yields like this in more than twenty years, so it makes a lot of sense to buy debt here.

At T&T Capital Management, we have been building bond ladders. As part of that, we have been investing in AAA loan security structures that have been yielding nearly 6.5 percent. These loans are short term and are adjustable rate, so they are extremely low risk when it comes to interest rates, or credit quality. If rates go down, the yield will go down, which is why we also like buying debt with longer maturities. In combination with short-term debt, we have been buying investment grade, and some high yield debt with yields to maturity from 6.5 percent to 11 percent. These bonds lock in attractive yields for a longer duration and provide further upside if long-term interest rates drop in the next recession.

This is a fantastic time to own bonds, and they should dramatically outperform stocks in the next bear market, cushioning portfolios, especially for those close to retirement, or already retired.

Real estate investment trusts are another asset class that is very attractive in the current environment. Prices are down 40 percent to 50 percent from their highs on many of them, but the cash flows are stable to growing. Leases have rent escalators that are either fixed or linked to the Consumer Price Index, so over time, they are a

great hedge against inflation. Many of the REITS that we have been buying have yields near 6 percent to upward of 8 percent, and we expect these yields to grow at attractive rates over the next three to five years. Once again, REITs will likely perform even better if the Fed takes a machete to interest rates and inflationary trends weaken.

Is Buffett focused entirely on what the Fed may or may not do?

Consider a quote, he made very, very long ago: “If Fed Chairman Alan Greenspan were to whisper to me what his monetary policy was going to be over the next two years, it wouldn’t change one thing I do.”

Alan Greenspan, of course, left the national stage many years ago. We suspect, however, that if Buffett were asked the same question today, his answer would be the same.

Part of Buffett’s trepidation toward stock valuations are the geopolitical and economic risk factors that are staring us in the face. Western economies are drowning in debt and deficits, which are being exasperated from higher rates to the point where debt service is becoming the largest part of many economic budgets.

As I write, there are two major wars with few signs of ending, and with material potential for escalation. My hope is that the new administration can broker peace, but the next crisis is sure to show up sooner than later regardless.

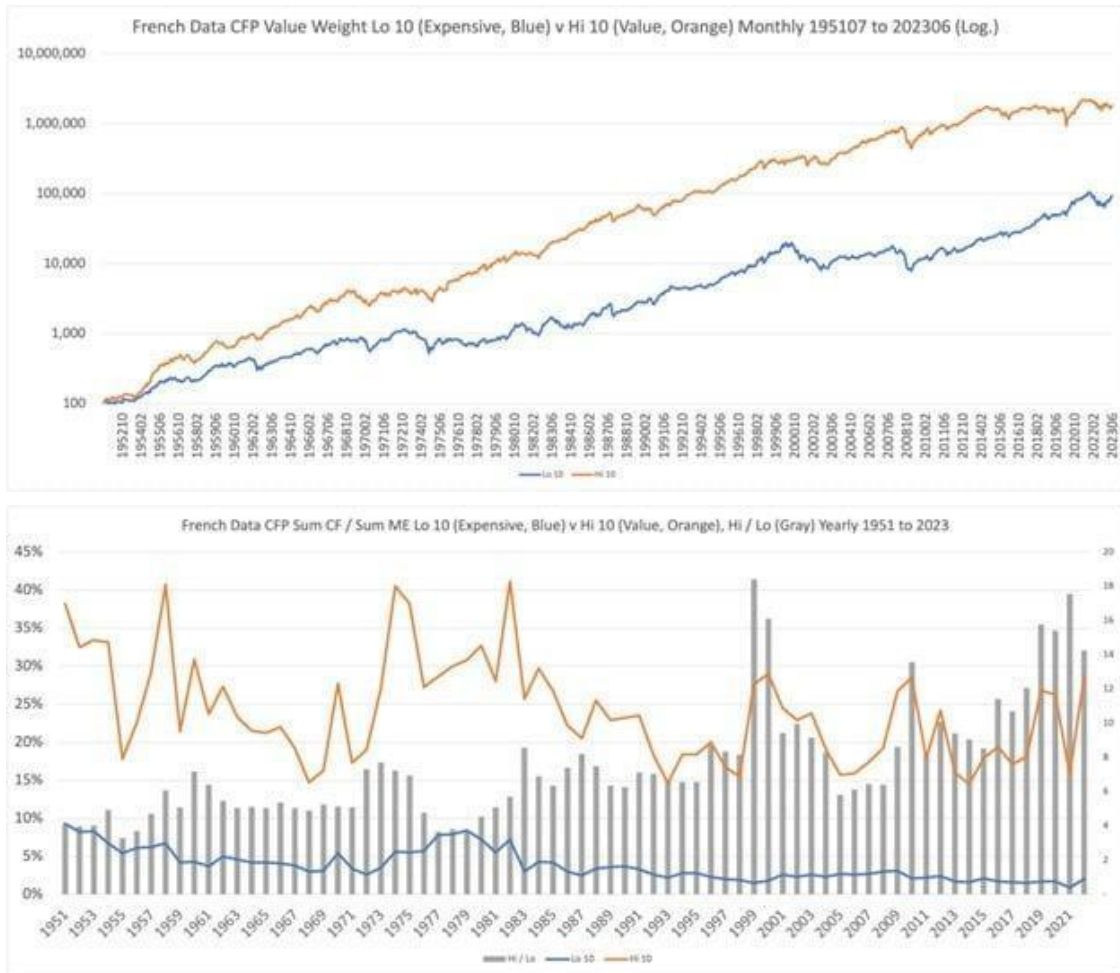
I don’t blame Buffett for not wanting to bet the house on an expensive equity market, when frankly there are way easier and more durable ways to make money.

## **11. Finding Opportunity In Value Stocks**

Value stocks, glamour stocks, corporate bonds, and Treasuries have relationships that hold true for most years. Sometimes, however, things can get out of whack and incredible money-making opportunities present themselves for those who have done their homework and move with alacrity.

Now appears to be one such time.

A friend in the industry, Tobias Carlisle, sent me these two graphs which got my attention like a slap in the face.



Wall Street seldom rings a bell to announce that the rules have changed – at least for a while.

We won't go swimming in the higher mathematics used to create these charts and to make the case for what we believe they show.

The first chart shows the compound returns of the highest 10 percent to cash flow stocks (glamour) and the lowest 10 percent to cash flow stocks (value). Starting in about 1950, the ratios were charted for seventy-two years. Value stocks outperformed their glamorous cousins for the longest time by about 5 percent per annum. So much so, that the value portfolio ended up around twenty times larger than the glammers.

You'll get no argument from this value stock believer. Value investing has simply been the best investment strategy over the long term.

Something happened, however, starting in April 2014. Since then, the value portfolio in the graph has underperformed by 75 percent until reaching the edge of the chart. The spread maxed out at 76 percent in August of 2020.

The Covid pandemic and associated lockdowns not only changed human relations and the commute to the office drill, it also changed how different kinds of financial assets performed. The year 2020 was one of the worst years ever for value. The gap in performance closed a bit in 2021 and then opened up to near the highs once again in 2022.

(The higher mathematics we skipped involved building separate portfolios, rebalancing them after specific periods of time, and then comparing them to stocks at the thirtieth and seventieth percentiles to add a dose of practicality and dashing accusations that the portfolios were hand-picked. Sorry, you asked.)

The second image shows the yearly cash flow yield of the value portfolio. The two standout time frames where the cash flow yields were highest were in 2000 and 2021, simply because the graph doesn't go beyond 2022, or 2023 and 2024 would be right up there as well.

Recall that 2000 was clearly a bubble where the Nasdaq proceeded to drop by 80 percent over the next three years.

Tech stocks dominate the current market in early 2025, where the indices are more concentrated than they have been in decades. Valuations in the sector are at rare extremes. Case in point, Elon Musk cracked the \$400 billion level in net worth, at least on paper.

Meanwhile, the primary competition for stocks—bonds—offers the highest yields in twenty years. If sentiment were to change, it wouldn't be a shock to see a massive exodus out of these glamour stocks into bonds and value stocks.

I firmly believe that those large glamour stocks have entered into bubble territory, which might end up meaning another lost decade for the indices, as we saw from 2000 to 2010. That decade was bad for the market, but fantastic for value stocks, which posted stellar returns.

Calling when the bubble bursts is as fruitless as trying to predict where the roulette ball will stop. Our value portfolios are as cheap as they have been relative to intrinsic value, as I have seen, and in comparison with the overall market, it isn't even close.

We are buying highly profitable and growing companies with dividend yields higher than 5 percent, and free cash flow yields higher than 13 percent. We believe these are attractive fundamentals.

We've been taking advantage of the more attractive fixed income environment to capture these higher yields now available.

Records of Treasuries have been kept since 1776. We never saw three years of negative returns until now

This was fairly predictable given the ridiculously low interest rates we saw in 2020 because of the pandemic, but that didn't stop many advisors from herding their older clients into heavy bond allocations, as that was a rule of thumb...

Some may recall the 1980s when Fed Chairman Paul Volcker was determined to tame raging inflation and pushed the federal funds rate to 20 percent.

This time around, out-of-whack relationships among assets offer opportunities to buy securities cheaply. These are times when we can really set ourselves up well for retirement, or whatever financial goals we have.

You have to plant the seeds and let the portfolio grow, but with patience, these can be really fertile times.

## **12. Three Simple But Underused Financial Strategies**

Investors with sizable portfolios are probably receiving professional guidance already. In fact, their motivation may place more importance on protecting the assets in the portfolio, with growth being of secondary concern.

Here are three strategies to protect your nest egg.

### **Strategy #1: Shift Your Tax Allocation**

We are big advocates of Roth IRA accounts and Roth conversions. Roth IRAs offer tax-free growth and distributions, freeing you from the cycle of taxable required minimum distributions. The simplest way to invest in a Roth is if your 401(k) program offers a Roth version. However, any employer match will always be paid to the traditional part of the 401(k).

Another increasingly popular strategy is Roth conversions. This entails taking a portion

of your traditional IRA or 401(k), paying taxes on it, and converting it into a Roth.

Those who are of Medicare age should get guidance from a financial advisor first so as not to take too much out in any one year. This strategy tends to make the most sense in years where your income is down, or more commonly, during that period after you retire but before you've taken Social Security.

We use sophisticated software to help clients make and model these decisions. Often, this means targeting a specific tax bracket, such as 24 percent, and converting as much as possible until it would push them to the next tax bracket higher.

Roth conversions done properly can save clients considerable amounts of money, but they aren't always the right call, which is why using a skilled financial advisor can add so much value.

## **Strategy #2: Harvest Your Tax Losses Strategy**

Tax loss harvesting is a critical step in portfolio management. This usually entails selling positions that are showing a loss to offset those that have gains. It is a far more complex process overall, though, because the last thing you would want to do is sell positions when they are most undervalued, as you might miss the ensuing recovery. There is a balancing act to it. Sometimes, a good option is to, say, take a loss on AT&T but buy Verizon as a substitute or something like that. This allows you to take the tax loss but benefit if the telecom sector catches a nice bid as the new year begins. Long-term gains are taxed at a more favorable rate, so we tend to be longer-term investors in our stock investments.

## **Strategy #3: Take Advantage Of Permanent Life Insurance**

Many TV commercials advocate for term life insurance based on its affordability if you are young and healthy. I absolutely love term insurance, and in cases of tragic and far too-young deaths, I've seen it save families' financial fortunes.

With that said permanent life insurance can bring tremendous value as well. As long as you pay your premiums, permanent life insurance will last your entire life, providing a fantastic asset for your estate upon your passing. In addition, permanent or whole life insurance policies allow one to utilize the cash value for living benefits. This can help pay for long-term care costs or be leveraged for an investment such as real estate. They are also a source of forced savings that can be relied upon in times of need. My radio partner Bruce Weinstein often talks about how his whole life insurance policy saved his financial skin while navigating the 2008 real estate market crash.

## Taxes May Be A Blind Spot In Your Investment Portfolio

A lack of attention to taxes may be costing investors big bucks. According to CNBC personal finance expert Greg Iacurci, many investors are probably familiar with the concept of asset allocation, which entails selecting the right mix of stocks and bonds (say, stocks for growth when young, shifting money into bonds with age) to balance investment risk and return.<sup>iii</sup>

Iacurci says where the investments are held can be as important as how much. The types of accounts in which stocks and bonds are located are perhaps just as important, especially for wealthier investors, according to financial advisors. In his article “Taxes may be a blind spot in your investment portfolio,” he writes:

*This “asset location” strategy aims to minimize taxes by boosting investors’ after-tax returns. Asset location really starts to make sense once investors’ income is high enough to put them in the 24 percent federal marginal income tax bracket. In 2024, the 24 percent bracket starts at roughly \$100,000 of taxable income for single people and about \$201,000 for married couples filing a joint tax return.*

Why does asset location work? I concur that asset location leverages two basic principles. For one, not all investment accounts are taxed the same way. According to Iacurci, there are three main account types:

**Tax-deferred.** These include traditional (i.e., pre-tax) individual retirement accounts and 401(k) plans. Investors defer tax on contributions but pay later upon withdrawal.

**Tax-exempt.** These include Roth IRAs and 401(k) plans. Investors pay tax upfront but not later upon withdrawal.

**Taxable.** These include traditional brokerage accounts. Investors pay tax when earning dividends or interest or upon sale if there’s a profit.

My viewpoint is that this is why cookie-cutter plans do not work, especially if you have more than \$1 million to invest. The critical takeaway is investment income is taxed differently depending on the asset type. For example, interest income is taxed at an investor’s ordinary income tax rates. The highest earners might pay 37 percent or more on such interest.

It can often make sense to allocate higher income-generating investments into tax-deferred or tax-exempt accounts, but this is why we focus so much on customizing

things for individual investors. You can get a strategy to reduce the most considerable expense in retirement: taxes.

## **Three Steps For An Approximation Of How Much You Need To Retire**

1. Determine how much you need to spend each year. It is essential to create a reasonably accurate budget accounting for things you must spend your money on, such as mortgage/rent, utilities, car bills, etc., and what you want to spend your money on, such as travel, entertainment, etc. One tip I use is to pay for nearly everything possible with a credit card, and I put alerts on at a very low dollar-limit level. Sometimes, I get notifications of duplicate subscriptions, or I'll catch a fraudulent charge right away. If you really practice keeping tabs on what your spending is over a three- to six-month period, you can get pretty accurate with how much you actually need to spend. Certainly, we will adjust for inflation on this, too.
2. Subtract reliable income sources like social security, a pension, annuities, or rental income. These are much more dependable sources of income than a part-time job, variable investment income, etc.
3. Multiply the number by twenty, or if you feel like being even safer, by twenty-five.

These steps are a basic rule of thumb that can steer you towards the north star of a successful retirement, which is what this is all about.

## **13. Long-Term Care Insurance**

Long-term care insurance is an industry that has changed dramatically.

The costs of medical care have risen to such frightening levels that even people with existing policies faced sharp price increases despite insurers' promises to hold the line. New retirees looking to take the worry out of the future because of a major operation and the need for someone to come daily to provide recuperative care, be it to administer medicines, help with rehabilitation exercises or tend to hygiene, dressing and such, found they were priced out of the market.

Insurers, too, found they could not make a profit on existing policies—care expenses had risen too high. New retirees inquired about policies, but they could not afford to buy. Inquiries dried up, and insurers effectively stopped offering long-term care policies. Today, healthy retirees turn to other, if less assured, ways to slay the dragons of medical care expenses.

With over two decades in the industry, we've seen many families adversely impacted by long-term care issues. For instance, a husband battles dementia in a nursing facility that costs several thousand dollars a month. These costs are eating up the social security income that the family has been relying on for its monthly spending. The result is that the family must draw down aggressively on what investments they do have, but that money goes quickly. The last option is to either downsize the home or even resort to a reverse mortgage.

Another example occurs when loving children quit their jobs to assist their parents in need of care. This, of course, is extremely honorable, but often it occurs at the peak of the children's careers and earnings. This might pressure their family's own financial situation and retirement goals. These are big issues, which is why it is important to think about how you want to handle long-term care costs.

Some wealthier families can elect to self-insure. This would entail being able to pull money from their investments without having it dramatically impact their life. This can be effective but is also highly dependent on the uncertain investment performance of the underlying account. Others might plan on downsizing or selling their homes to finance long-term care. These options can be tricky for a variety of reasons, as you don't know what the markets will be like when you have those long-term care needs.

While traditional long-term care insurance policies are still sold, the industry has evolved a bit towards asset-based plans. These plans might bundle life insurance with long-term care riders, which pay out when long-term care needs arise. Whole life insurance is not meant to contend with investments but instead is a savings and wealth transfer vehicle.

The benefit of this type of plan is that if you don't use your long-term care insurance, the estate gets the premiums paid back upon your passing.

This might be a good way to catch two birds with one stone, as life insurance is a hugely important thing to have. Another benefit of whole life is that there are living benefits, as the cash value can be tapped into. The insured borrows money from the insurance company and pays an interest rate while the cash value continues to compound. This can be a nice source of cash to draw from during market downturns when you might not want to sell your investments or if you want to use a lower cost of capital to fund an attractive investment per se, which allows you to leverage your policy. This is not a blanket recommendation, but it can provide tremendous security.

The simplest way to start protecting yourself against long-term care is with prevention. Getting regular check-ups, eating healthy food, exercising, socializing, and pursuing stimulating mental challenges. In short, doing all the kinds of activities we know we should.

I generally go to the gym or hike six to seven days a week. It doesn't all have to be rigorous exercise, but you want to keep moving. I'm also a big advocate of intermittent fasting, where you try to keep your eating window within an eight-hour period. Since I've started doing that five to six days a week, I've found it much easier to keep a more consistent weight and body composition in combination with exercise.

Fortunately, Medicare is available to many who can afford it. Basic coverage, Parts A and B, come with premium costs that rise with age or as one's retirement income increases, say, as the person converts large amounts of money from tax-deferred retirement accounts and has to pay the tax bill and higher Medicare premiums. Hospitalization and drug prescriptions, Parts C and D, can be purchased for additional coverage. The supplemental insurance is called Medigap by consumers.

As people live well beyond the traditional retirement age of sixty-five, the effect is to try to stay under the umbrella of the employer's paid health care insurance or perhaps seek a part-time job where the pay may not be the greatest, but paid health insurance is a valued benefit.

Uncle Sam is comfortable with people working past sixty-five and not signing up for Medicare as long as they have employer-paid coverage. But don't game the system by ignoring past Medicare age at sixty-five, even if healthy. A written note from your

employer that you continued to be an employee with coverage until X date is as valuable in leaving the workforce as the thin gold watch. Turn the letter in immediately, if not before, at the Social Security office when applying. The back penalties for gaming the system are severe.

One aspect of the problem is that there is no cap on medical outlays. One in ten traditional Medicare beneficiaries, according to a survey by the AARP Public Policy Institute, spent 52 percent of their income on medical expenses.<sup>iv</sup> Those expenses are not tax deductible if repaid by insurance and must exceed a certain amount.

AARP does not do the survey every year. Back in 2019, it found that people with traditional Medicare spent, on average, \$6,636 a year for insurance premiums and medical services. That was with 2019, not 2025, prices.

Health savings accounts have become popular despite high deductibles. These accounts are tax-free in three ways: tax is not paid on what is put in, the money grows without being taxed, and what comes out is not taxed if spent on qualifying health care expenses.<sup>v</sup>

The savings aspect is important. What is not spent can be stored for the future. Some seniors turn to retirement villages or complexes for more than socialization and downsizing reasons. Money is paid upfront for what is hoped to be a lifetime residence. Initially, residents start with lodging and meals, and they may advance to nurse-assisted care and eventually skilled nursing at an advanced age.

Still, without long-term care policies being widely available, anecdotal horror stories do occur. Some people suffering from catastrophic expenses are forced to transfer or dispose of assets until they reach a qualifying level for government programs such as Medi-Cal.

The state of your health and that of any dependents should be ever present in your financial and retirement planning.

## **14. Real Opportunities In Real Estate**

“If you don’t find a way to make money while you sleep,” Warren Buffett famously said, “you will work until you die.”

The succinct sentence drove home his point about passive income or making your money work for you.

He listed five ways to get ahead using passive income:

High-yield savings accounts. A risk is that, at times, the yield on cash cannot keep up with inflation.

Real estate. (More later.)

Dividend stocks. An advantage is that, unlike real estate, it takes less money to get started.

Broad-market funds, often called index funds. An advantage is that indexed mutual funds and exchange-traded funds offer an efficient way to achieve diversification.

Annuities. “Careful,” caution many financial advisors. Annuities are simply a contract with an insurance company to provide guaranteed income in the future. Fixed-payment annuities have gained respect, but variable-payment annuities, the “bad boy of the industry,” can carry high fees and are subject to significant fluctuations from year to year.

This chapter is about real estate, and we’ll take a quick walk down some real estate neighborhoods. Real estate can work for you while you sleep, although sometimes it may take extreme patience.

We’ll focus on the use of real estate to gain passive income. For example, owning and operating a gymnasium is a business that entails staffing, recruitment of new customers and many business issues. Owning a gymnasium site and leasing the building under contract to an operator can be a way to gain passive income.

One believer in the use of real estate as a way to financial freedom is Dr. David Phelps, a former dentist and now author, speaker, and chief executive of an organization called Freedom Founders.

Phelps likes the fact that real estate is a tangible asset. Further, he sees it as an inefficient market. “This is a major benefit that allows the individual investor to take advantage of the inefficiencies in the real estate market to be able to access and invest where the major funds are not able to access,” he told an interviewer.<sup>vi</sup>

That advantage takes skill and the ability to recognize and act on trends before others may even see them. We are talking passive income, so that rules out the individual who spots some decrepit, forlorn property, buys it, and invests his own money, time, and energy to flip the house.

## **Personal Residence**

The most common way to profit is with the house you own. Some dream of living in a house until retirement, then selling and relocating to some exotic place or maybe to just where the cost of living is much cheaper. But we tend to put down roots in a community and may not want to leave friends, familiar service providers and a comfortable lifestyle behind. Or, that cheaper place may be far away from the medical facilities often needed in retirement.

## **Investment Residence**

Ownership of an investment home can have some advantages. Depreciation in the early years can cancel the taxes due on the passive income from renting it out, especially if you can qualify as a real estate professional. The depreciation will be recaptured later, often much later, and taxed at an arbitrary tax rate. Meantime, the mortgage loan is being paid off slowly. If the property rises in value over the years, the increase may be taxed at a capital gains rate or left to heirs who enjoy a step up in value as to their cost basis.

The key is having positive cash flow, meaning the rent covers attendant costs such as property taxes, required insurance, repairs, and replacement appliances.

The dream sometimes turns into a nightmare. A bank will not lend money without proper home insurance. Pity the unfortunate owner in Florida who suffers hurricane or flood damage or the California owner who loses a home to a wildfire only to see insurers flee the market when asked about rebuilding. We've just witnessed this in a terrible way with the horrific fires that devastated the Pacific Palisades right after many insurers, such as State Farm, have pulled back from the state. My own home insurance was up roughly 40 percent from last year, but I was happy to have it as it is getting so scarce to find in many fire-prone areas.

Homeowners in the Sunbelt states have seen fantastic price gains as a way to build a secure retirement income. Ask a financial advisor in the Midwest or inland California about that strategy, however, and you may get a blank stare. A house in spacious rural areas may be resold fifteen years later for approximately the same price. As with stock

investments, price is what you pay, and value is what you get. Real estate is not always a good investment.

## **Commercial Property**

Oh, the joy of owning a downtown storefront with a prosperous business and being a stable tenant for fifteen years.

Well, not anymore. Online shopping and quick deliveries are so convenient but have taken their toll. Department stores, once the anchors of malls, are disappearing. Pop-up events at malls are just as likely to be joined by pop-up vacancies or even conversion to housing. Employees would rather work from home than fight traffic for long downtown commutes.

Think of a downtown or suburban storefront today as a place where services are provided: nail salons, haircuts, and a gymnasium with convenient parking. Some consumers even skip trips to the grocery store in favor of getting products delivered.

## **Real Estate Investment Trusts**

All is not bad news for real estate investors. They have additional choices today. They can gain the power of leverage: put some money as a down payment and borrow much more.

Or they can get into and out of real estate for little money and quickly, thanks to real estate investment trusts and their cousins, stock ownership shares marketed by huge companies and diversified by regional locations and types of activity.

It is a young person's game—thirty-year mortgages are not typically taken out by near-retirees.

In our view, it takes a team effort: questionnaires to determine the risk tolerance of an investor, an experienced advisor who may remember the crash of '87, Y2K, the Great Recession, or what a Covid-related lockdowns did to the economy. Tangible real estate often requires the services of an attorney.

Then again, real estate can mean real opportunities. That's why our team has attorneys on speed dial.

## 15. The Tax Man Is Coming

Perhaps you have heard whispers about a stealth tax and you don't understand it because it hasn't affected you yet.

Perhaps you have heard the whispers but don't know how it is calculated.

*Not simply put, the stealth tax is imposed on affluent taxpayers who have reached Medicare age (sixty-five), and it causes their monthly Medicare premiums to rise. It is diabolical in the way it is assessed on the modified adjusted gross income of not one but two years ago. This means that taxpayers who are assessed will see 2025 premiums for Medicare Part B (doctor's services) and Part D (prescription drugs) go up based on their income in 2023.*

The income amount triggering the tax is called *modified* adjusted gross income because it takes the line 11 amount on the taxpayer's Form 1040 and adds income that is exempt from taxation, income such as municipal bond dividends.

Are you with me so far? Are you starting to gain an appreciation for the services your retirement advisor and your accountant provide?

Good. Here's why you should care.

The tax is triggered by sizable upward fluctuations in income. It may go up for a year or two. Ironically, it may go back down after that.

Withdrawals from tax-sheltered accounts, if done too abruptly, are a primary cause. You may have used the money for a down payment on a first or second home or other large expense. You may have sold a house and incurred a large capital gain.

What amount of money are we talking about?

Well, in 2023, if your income for filing single was below \$106,000 or for married filing jointly was below \$212,000, you are home free. Your Part B premiums are not affected. We'll talk about Part D premiums, calculated in a different way, in a moment.

If you earned \$212,000 to a dollar less than \$266,000, you will pay a Medicare standard amount plus a surcharge.

There are five Medicare surcharge brackets in all, and even hitting the next level by one dollar is like falling off a cliff.

Other brackets (married filing jointly amounts, singles half that) are:

- \$266,000 to a dollar less than \$400,000,
- \$400,000 to a dollar less than \$750,000,
- Above \$750,000.

The formula for Part D premiums is based on national averages and may vary from individual policies because of the sponsor's treatment.

So, a word of caution. If you are thinking about taking a huge amount and converting it to a Roth account all at once, please talk it over first. The same advice goes if you want to take your required minimum distributions all at once instead of in yearly stages.

Taxpayers are angered by the complicated treatment and often by the surprise element of suddenly being in a bracket they never expected. For that matter, taxpayers are angry about being taxed at all on the Social Security benefits they receive. After all, it was a program they were required to participate in.

Some are incensed that the Social Security benefits received have been increased with the cost of living over the years, but the amount exposed to the tax has not been adjusted since 1983 when it was first imposed.

The saying, "Nothing is certain but death and taxes," we should add: life is not fair, and taxes are definitely not fair.

### **Could You Be Missing Important Tax Dates?**

Switching from the complicated stuff to tax dates you should not forget, here are important ones compiled by Medora Lee and Veronica Bravo of the USA Today staff:<sup>vii</sup>

**Age 59.5:** You can withdraw money from all retirement accounts, including IRAs, without incurring a 10 percent early distribution penalty. Taxpayers can take tax-free distributions from Roth IRAs opened for at least five years.

**Age 60:** Early Social Security benefits can begin for a surviving spouse.

**Age 62:** Early Social Security benefits can begin. For those claiming early spousal benefits, your benefits can be reduced by up to 67.5 percent.

**Age 64:** Medicare enrollment begins three months before your sixty-fifth birthday and ends three months after. (An exception is for employees whose employers continue to provide health coverage even after they reach the traditional retirement age. They must apply immediately upon termination of employment and provide a statement from their employer.)

**Age 65:** Taxpayer's standard deduction (and dollar threshold for filing requirement) is increased. In 2023, the additional standard deduction for age sixty-five and older was \$1,500 per taxpayer.

**Age 67:** Full retirement age for those born since 1960.

**Age 70:** Delaying Social Security benefits to this age gives you the maximum benefit.

**Age 70:** Under the December 2019 SECURE Act, if you have earned income (W2 or self-employment income), there's no longer an age cap (previously age seventy and a half) for contributing to a traditional IRA.

**Age 73:** You generally have to start taking RMD withdrawals from your IRA, SEP IRA, SIMPLE IRA or employer retirement plan account when you reach age seventy-three (the seventy-two age limit changed to seventy-three in 2023 because of Secure Act 2.0).

## **16. Why A Perceived ‘Risky’ Stock Is Far From Actually Risky**

When I attended college at the University of California Santa Barbara, in my economics and investment classes, I learned lessons that were laughably incorrect in application to the real world. You see, the problem with economics is that the PHD’s insist on trying to make it a science, but it is far more of an art. They want markets to always be efficient, and they want to define riskiness as being the stocks that move with the most volatility. Taking advantage of this foolishness is one of my favorite pastimes as a professional money manager and financial advisor.

Close your eyes and try to remember where you were on March 10, 2023. For me, the exercise is quite easy. My beautiful wife Amanda and I, along with our good friends Erik and Sofia, had just landed in Cabo San Lucas, Mexico. As we had just checked into a very luxurious hotel and I indulged in my first margarita of what promised to be a relaxing couples retreat, I opened my computer to check on the markets. That was when the vacation basically stopped for me. Financial stocks, which as a sector we were heavily long in, were plummeting hard! The news was that there were actual runs on banks, particularly SVB Financial and Signature Bank, but also a few others.

The issues stemmed from the rapid increase in interest rates that we had mentioned earlier in the book, which caused bond and mortgage prices to collapse. Banks such as SVB and Signature were tailored toward venture capital investors, which tended to be more flighty and short-term depositors. As the bonds collapsed, news spread about the massive holes being created in the balance sheets, and the venture capital companies that owned many of these VC-funded firms advised getting their deposits out of these banks. The media caught on to what was happening, and bank stocks had some of their worst days since the Financial Crisis. Nearly all banks dropped precipitously, even if they had impeccable balance sheets. Whenever you see this type of hysteria, pundits selling newsletters and fear dramatize the events. One commentator claimed a major U.S. bank was going down. Another suggested Charles Schwab was a likely goner, where we had custody of most of our assets. Such claims tend to amplify the fear cycle without rigorous fundamental analysis.

I’ve talked before about how, at T&T Capital Management, we take a great deal of pride in educating our clients. We don’t want anyone to panic irrationally, and we want our

clients to have great comfort in how their finances are being handled. This selloff led us to take a closer look at financial stocks, with a focus on banks that we believed had strong fundamentals. Below is an article we wrote on May 9, 2023, about the bank in our analysis. We didn't share the name of the stock at the time because once you say the name, people get jaded by their preconceived notions on the "riskiness" of a stock, so we wanted them to focus on the fundamental data.

The 2023 analysis follows with only light editing.

	2018	2019	2020	2021	2022
Net Income	\$18.045B	\$19.401B	\$11.047B	\$21.952B	\$14.845B
Earnings Per Share	\$6.69	\$8.04	\$4.73	\$10.14	\$7.11
Tangible Book Value Per Share	\$63.79	\$70.39	\$73.67	\$79.41	\$81.95

*Any bank is perceived as risky right now (early 2023), it seems, despite some of the highest capital, liquidity, and earnings positions in their history, which tells you more about this environment than the actual companies.*

*As you can see from the table above, this "risky" bank stock has averaged \$17 billion in net income over the previous five years and is on pace to do that again through the first quarter of 2023. Earnings per share averaged \$7.342 per annum. Tangible book value per share has grown materially every year, which has continued through the first quarter of 2023.*

*Despite all these positive factors, the stock trades at an outrageously cheap market cap of \$90.56 billion and just 6.33 times average earnings per share. (The stock price was around forty-five dollars per share.) That is about 55 percent of tangible book value. Business is fantastic, and the company is exceeding its return on tangible equity targets. The stock price, however, has been hammered for the last two months due to a massive disfavor in bank/real estate stocks that has pervaded since the early March collapse of the very weak SVB Financial.*

*The dividend is nearly 4.5 percent at current prices, and we have covered calls at various levels, but the analysis suggests substantial upside potential at the historical valuation we cited and would still not be expensive, trading right around my projected 2024 tangible book value per share. (As I write this, shortly after Q4 earnings came out for the bank in our analysis, tangible book value per share was \$89.34, while the stock price is around eighty-one dollars. We have done extensive research in the financial sector.) I could show you a similar picture for just about every financial stock in our portfolio, as all of them have more than 50 percent upside potential from current levels in our estimation.*

*All we need to be successful in these investments is for the entire U.S. financial system not to blow up completely. The earnings and asset values are there for everyone to see. Liquidity and deposits are extremely healthy, as are capital levels. Not every bank is in this great of a position, of course, which is why we don't own those weaker names that you keep seeing in the headlines, but just about every bank is being painted with the same brush in the current falling out.*

*Fear causes the market to price securities at ridiculous prices, and that is what you are seeing right now, as there is absolutely no relation between current prices and intrinsic value on stocks such as the bank in our analysis or ALLY, for instance. We have seen these types of disconnects before in 2011, 2016, 2018, and 2020, and they usually resolve themselves in the next six to twelve months or so, if not earlier. We were very successful in coming out of all those panic-driven manias, and I fully expect that to be the case again here.*

*I believe it is far riskier owning a consumer staples company at double its normalized valuation with very little growth prospects than owning these stocks at massive discounts to a conservative approximation of liquidation value, and earnings yields between 14 percent and 20 percent, with dividends from 4 percent to 6 percent. We believe these prices represent meaningful discounts to our estimates of intrinsic value.*

*Even stocks such as Microsoft had a lost twelve to thirteen years when investors had paid too high of prices for them in the Tech Bubble, and I believe we might be seeing a similar dynamic in today's so-called "safe stocks."*

*McDonald's trades at thirty-two times earnings, when historically it has traded around eighteen or nineteen. A reversion to the mean would put the stock at around \$170 per share from its current \$296.66, or roughly 42 percent lower. (As of February 9, 2025, the share price of MCD is \$294.39)*

*A reversion to the mean for the bank in our analysis would put the stock at more than seventy dollars per share, or about 52 percent higher. (As I write this in February of 2025, the bank in our analysis stock now trades over eighty-one dollars per share.)*

*Obviously, there is risk in all investing, and nothing is guaranteed, but I believe the process is grounded in fundamental research.*

*While the last two months of 2023 have not been fun, we conservatively structure portfolios with options to where we are still above break-even prices on many of our options, meaning if all the stocks were trading where they are now at expiration, I'd estimate a roughly 7 percent to 11 percent increase in account values through the combination of options decay and dividends/interest collected between now and January (2023), putting us at solid near double-digit returns. If we get the upside I expect to achieve as the fear stabilizes, we could get high-double digits or more.*

*I'll give you an example of what I mean with a different stock. We had sold much of our a major U.S. bank stock in the high thirty-dollar range or even forty-dollar range in the last few years. Most of these sales were from in-the-money covered calls being exercised. We still liked the business, but the price reached our estimate of intrinsic value, so we stayed true to our discipline and sold. To invest back again into the company, we sold puts at twenty-eight dollars, which was far below the market price of the bank, which had been above thirty-five dollars prior to March 6, collecting a nice premium.*

*Our target price for the bank is around forty dollars per share (the bank trades at \$44.40 as of February 9, 2025), so we are happy owning the stock at current levels. Our twenty-eight-dollar January put options are currently selling for \$2.90. If the bank, which currently trades at \$27.66 in the midst of this disfavor in bank stocks, trades above twenty-eight dollars at expiration, we will make \$290 on a maximum risk of \$2,510, which is an 11.55 percent return, or 16.7 percent annualized. If the stock expires below twenty-eight dollars, we will end up owning the bank at a little more than twenty-five dollars per share and will have all the upside from there, which we believe to be around 50 percent. Hopefully, this provides a little bit of context, as I truly believe we are in a very great position moving forward as our options, bond, and stock positions mature.*

Do you want a financial advisor/money manager who communicates like this with you in periods of peak distress? Do you want an experienced professional who analyzes balance sheets and financial data without being influenced by whatever euphoria or

depression that is engulfing Mr. Market? Do you want a skilled money manager working every day to maximize your risk-adjusted returns and create the right financial plan to help you accomplish your goals? If so, you might be just the client for T&T Capital Management, and we would love to work with you. Feel free to call me directly at 805-886-8140 or email me at [tim@ttcapitalonline.com](mailto:tim@ttcapitalonline.com).

## **17. Fear Never Sleeps And The Long Game**

The great Mike Tyson, when asked about his next opponent's plan for their next fight, replied, "Everybody has a plan until they get punched in the mouth."

The same might be said about the next jolt to the stock market, be it a stomach-churning roller coaster dip almost forgotten a month later, or the never-ending hangover that follows a spell of irrational exuberance.

One never really knows when it will happen. People can be told to stay calm, not to panic, stay calm...

At T&T Capital Management we prepare ourselves and our clients for the next recession. Besides the when, we don't know what shape it will take.

The preparation starts with the questionnaires clients fill out and the consultations to determine their risk tolerance. We have the "don't bet the rent money" cautions and, gingerly, the "How would you feel if your portfolio declined 50 percent? Are you in this for the long game? Will you be needing that money soon?"

The next very important step continues with the structuring of the assets in the portfolio. Some clients have heard about the wisdom of putting money into an indexed fund and enjoying the very low fees. But they may not have assimilated the corollary: The fund is designed to track the index. If the market plunges, so will the index, and so will your fund.

Moral: Don't put all your money into one asset class, especially common stocks. There are plenty of alternative assets: bonds, CDs, high-yielding dividend stocks with twenty-five-year or even fifty-year records of steady payouts, real estate investment trusts, MLPs, and even some types of life insurance to provide a cushion for possible caregiving expenses.

This is a book about buying value stocks, buying them at a discount from what we consider their real value, and even adding a margin of safety by writing a covered call or cash-secured put option.

As I recounted in Chapter One, a doctor client who was very emotional was prone to call with each market downturn. Then, one day, the phone did not ring. He knew what I was going to say: “Stay calm; don’t even think about panic selling, you’re in this for the long game.” He did, and years later, he is much better for it.

Burton G. Malkiel is the writer of a classic financial book, *A Random Walk Down Wall Street*. Amazingly, he has been at it for fifty years. In his fiftieth anniversary edition, billed as completely revised and updated, he explains the rise of behavioral finance in the twenty-first century and how research regards the irrational behavior of individual investors.

A psychologist—not an economist—Daniel Kahneman, who won the Nobel Memorial Prize in economic sciences, classifies four factors that create irrational market behavior: “over-confidence, biased judgments, herd mentality, and loss aversion.”<sup>viii</sup>

Overconfidence is the tendency to overestimate our beliefs, skills, and abilities and to be less than realistic about assessments of the future.

A subset is hindsight bias, and we remember our successes. Boy, do we remember them, while bad decisions tend to fade from memory.

Herding may seem counter-intuitive, but research shows that groups tend to make better decisions than individuals.

Loss aversion is the unwillingness to admit and recognize a loss. Emotions get in the way.

Possible lessons are to avoid herd mentality, especially meme stocks. Is Artificial Intelligence today’s version?

Avoid overtrading. Behavioral finance practitioners say investors do too much trading for their own good.

Panic trading is to be avoided, but if you do trade, sell losers, not winners. A “paper loss,” Malkiel writes, is just as real as a realized loss. The decision not to sell is exactly the same as the decision to buy the stock at the current price.”<sup>ix</sup>

Even renowned investor Warren Buffett knows when to take a loss:

“I bought a company in the mid-nineties called Dexter Shoe and paid \$400 million for it. And it went to zero. And I gave about \$400 million worth of Berkshire stock, which is probably now worth \$400 billion. But I’ve made lots of dumb decisions. That’s part of the game.”<sup>x</sup>

It doesn’t mean that we should be a doom-and-gloomer famous for predicting all five of the last two recessions.

It does mean that we are humans, and emotions can cause us to take actions that are not in our best interests.

Repeat after me: “White knuckle time is not the time to panic. We are in this for the long game.”

## **18. High-Income Opportunities In A Pricey Market**

The top ten stocks in the S&P 500 have reached a point where they represent more than one-third of the index. Valuations in this top-ten group are vastly elevated compared to their historical levels, highlighted by Nvidia trading at a staggering forty-one times sales. Nvidia was actually admitted to the Dow Jones 30 industrials index in early November, but it had to be split by a factor of ten so as not to skew that index.

It’s hard not to compare today’s environment in the large-cap Technology space to the Tech Bubble that burst in 2000. *The Wall Street Journal* had a great article on this back in August 2023. I highlighted a few of the more salient paragraphs but ran into an obstacle called a pay wall in sharing this with you.

“A basket of 43 high-multiple internet stocks—those worth at least \$5 billion that traded at 25 times their revenue at the turn of the century—crashed 80 percent over the next two years, according to Sparkline,” the Journal wrote.

“The companies weren’t duds, either. Their sales grew 10-fold in the ensuing two decades. But investors were badly bruised from the bust: The shares returned an average of 16 percent in that time span. The S&P returned 284 percent.”<sup>xi</sup>

Valuations matter in investing. We saw what happened in late 2021 and 2022 when a bubble popped, but realistically that was mild compared to what we saw in 2000 or in 2008.

I don't think the whole market is trading in a bubble, as there are many sectors that offer fantastic value. I've rarely seen high-quality companies offering such high dividend yields and low earnings multiples. These opportunities just aren't in the glamour areas that capture all the headlines. We've been buying incredibly well-financed real estate companies with yields from 5 percent to 8 percent that are still growing. These companies are in attractive sectors in the real estate market with high occupancy levels and strong demand.

When rates do start coming down again, we believe these companies can rally by 50 percent, but in the meantime, we get paid to wait.

Energy, commercial real estate, and healthcare are all pretty cheap relative to the market and history. I keep writing newsletters to clients about the opportunity for fixed income being as good as we have had in many decades.

We are buying very attractive bonds at yields-to-worst between 6 percent and 11 percent, as spreads have come down a bit. These bonds provide fantastic diversification and should hold up much better in times of stock market turmoil.

Another area of opportunity is business development companies (BDCs). BDCs, like REITs, pay most of their net income to investors via dividends, and those dividends are taxed at ordinary income tax rates. BDCs tend to own a diversified collection of loans, often in privately listed companies. At TTCM, we try to buy quality BDCs with strong histories of successfully underwriting these loans. At times, we are able to buy them at discounts to their net asset values (NAV). Those opportunities provide ample room for upside appreciation as those discounts tend to converge over time as long as credit quality is good. Many of these investments have current dividend yields of 9.5 to 14 percent. Those dividends are subject to change, so don't plan your next thirty years of income on them, but they can make a great addition to a portfolio when managed prudently.

If we do fall into a recession, we likely will see rates come down, which would be really beneficial for our bonds and REITs particularly, but a missed opportunity for those who don't invest.

## 19. What Many Advisors Get Wrong About Retirement

One of the blessings of having worked with hundreds of clients over the years is that with experience, you learn what to emulate and what to reject. I thought it would be helpful to outline a few common mistakes that we see advisors and individuals making in their retirement.

### 1) **Don't forget to rebalance your portfolio.**

When stocks go on a huge run, it is easy to be greedy and aggressive; often, those bull markets end up creating a bubble. Rebalancing can protect your nest egg when things fall apart. If everyone is optimistic, often that is the best time to be a bit more conservative, as that optimism is likely reflected in the valuations.

### 2) **Don't underestimate sequence of return risk.**

If investors or advisers ignore sequence of return risk, the odds of a successful retirement dwindle dramatically. In the table below, we took the exact same investment returns but reversed the sequence of them. When you frontload the losses, you go from an amazingly successful retirement to one in which you run out of cash, preventing you from being able to benefit from future growth. When we work with people in that red zone close to retirement or recently retired, we make sure that they are not taking too much risk. We've seen it too many times, such as in 2000, 2008, and 2022, when people were forced to delay their retirements or get back into the workforce because they had taken too much risk in that red zone period.

S&P 500 6% Withdrawal 3% inflation				S&P 500 6% Withdrawal 3% inflation			
Age	Return	Account Value		Age	Return	Account Value	
		\$500,000				\$500,000	
65	33%	\$625,100	\$30,000	65	-28%	\$338,400	\$30,000
66	-5%	\$564,490	\$30,900	66	-3%	\$298,275	\$30,900
67	32%	\$703,115	\$31,827	67	21%	\$322,402	\$31,827
68	6%	\$710,553	\$32,782	68	3%	\$298,309	\$32,782
69	16%	\$785,074	\$33,765	69	13%	\$298,934	\$33,765
70	-2%	\$735,290	\$34,778	70	27%	\$335,478	\$34,778
71	36%	\$951,277	\$35,822	71	-24%	\$227,739	\$35,822
72	25%	\$1,142,976	\$36,896	72	-8%	\$175,575	\$36,896
73	34%	\$1,480,664	\$38,003	73	-10%	\$123,815	\$38,003
74	37%	\$1,974,883	\$39,143	74	27%	\$107,533	\$39,143
75	27%	\$2,456,899	\$40,317	75	37%	\$92,086	\$40,317
76	-10%	\$2,173,834	\$41,527	76	34%	\$67,749	\$41,527
77	-8%	\$1,960,577	\$42,773	77	25%	\$31,220	\$42,773
78	-24%	\$1,456,556	\$44,056	78	36%	(\$17,457)	\$44,056
79	27%	\$1,792,196	\$45,378	79			
80	13%	\$1,972,366	\$46,739	80			
81	3%	\$1,981,952	\$48,141	81			
82	21%	\$2,338,164	\$49,585	82			
83	-3%	\$2,218,478	\$51,073	83			
84	-28%	\$1,559,428	\$52,605	84			
Average		11.5% per year		Average		11.5% per year	

### 3) Focus on income in retirement more than assets.

It is easy for retirees to get fixated on a dollar amount of what they will need to have a successful retirement. Maybe it is one million dollars, or maybe it is ten million dollars. We recommend that advisors and clients focus on recreating the income that the client had while they were working. Income streams are more reliable than simply betting on portfolio growth, and they also allow for better budgeting in retirement. There are lots of tools and strategies to create income.

### 4) Bucket your money.

A bucketed approach where you have money set aside in short-term bonds, or CDs, to meet near-term needs, allowing you to invest a bit longer-term with the other assets is advisable. One major mistake we see both advisors and clients making is keeping too high of a percentage in cash. We recommend having at least six months of expenses as an emergency fund, but beyond that you want your money working for you. We know unplanned expenses are going to come around, but by bucketing your money, you can rest far more easily knowing that you have the means to meet those unforeseen challenges. One bucket can be your most aggressive money if you want to speculate on something like Crypto, etc. Whenever you speculate, though, never risk any money that you will actually need. It's just not worth jeopardizing your financial future.

5) **Don't ignore the escalating healthcare costs in retirement.**

Soon-to-be retirees often think that Medicare will solve their healthcare expense problems, but the reality is very different. There are still deductibles, co-payments, Medicare premiums, out-of-pocket expenses, dental, vision, and long-term care costs that will eat up your wallet. Let alone those health insurance premiums if you retire before you turn sixty-five. This is why formulating a plan with an experienced advisor is so critical, as you can have the preparation and planning to deal with these challenges.

6) **Don't take a haphazard approach to your withdrawal strategy.**

The general rule of thumb for withdrawals is to start with your taxable money, then tax-deferred money such as 401(k)s and IRAs. Lastly, you tap into the tax-free Roth. We see exceptions all the time to this rule, so don't take it for granted. Roth conversions, particularly in those early retirement years, can potentially save retirees hundreds of thousands of dollars.

7) **Don't set it and forget it.**

While we absolutely are advocates of a long-term investment approach, that doesn't mean never selling, and it certainly means regularly reviewing your investments at least annually. Have your investment objectives changed? What are the valuations of the stocks and bonds in your portfolio? Are there less expensive funds or strategies that could accomplish something similar? What is your tax plan to maximize your after-tax returns? These are just a few of the questions that your advisor and you should discuss. Often, we see people staying in expensive and poorly performing funds for far too long. This is where working with an advisor can really help.

Below are a few additional risks that it is important to look out for!

**Employment risk.** Employees may wish to work longer than the traditional retirement age, but the decision is not up to them alone. Company downsizings and newer job skills being required are the norm today. Automation can transform the workplace.

John Wasik in *Forbes.com* cites a study by United Income that "Of Americans aged 65 or older and working or looking for work, 78 percent report being in good health or

better, up from 73 percent in 1997 and 69 percent in 1985. As a result, more retirement-age people can work: 77 percent feel no limitations in the kind of work they can do, compared with 71 percent in 1997.”<sup>xii</sup>

**Longevity risk.** Outliving your money is a major fear in retirement. Longevity tables can tell you, based on your age today, what the typical life expectancy is. Add a few years if long lives run in the family, subtract a few or factor in higher medical bills if health issues exist.

**Death of a spouse.** Grief will affect your ability to make clear-headed decisions for a while. Income will decline as two Social Security checks drop to one. There are ways to protect income such as life insurance, survivors’ pensions and partial long-term care policies. A retirement advisor and attorney can help with estate planning.

Many independent retirement advisors have a reciprocal referral relationship with a law firm.

**Change in marital status.** Separate living arrangements will mean a major hit to the standard of living for both partners. Two individuals living in their own homes will need about 20 percent more income, compared to those remaining in the same household, the Center for Retirement Research at Boston College estimates.<sup>xiii</sup>

**Unforeseen needs of family members.** Put yourself first so you don’t become a burden to your family later, is the standard advice. Loaning your grown children money or helping with their financial mistakes, is a recipe for disaster. Financial planner Kristi Sullivan of Denver puts it this way: “For some people it’s like taking an unexpected cruise every year with all of the expense and none of the fun.”<sup>xiv</sup> Put yourself first, yes, but what if it is your parent who needs to graduate to skilled nursing care and all of the siblings are being asked to chip in? This is where an emergency reserve fund may come into play.

**Unexpected medical bills.** Medicare is typically the major source of coverage. Yet Medicare only covers a portion of what the typical retiree must pay for medical expenses. AARP says original Medicare A&B generally pays about 80 percent of what is billed in those categories. Prescription coverage (Part D) can be obtained from private companies but is paid by the recipient. Medicare Advantage plans offer broader coverage but have caps on what is paid out. AARP estimates about half of the expenses a retiree pays out of pocket are not reimbursed.<sup>xv</sup>

**Change in housing needs.** You or your spouse may need assistance, either in performing daily living functions or skilled nursing. This may be sudden, as with a stroke

or accident. Often, this can be foreseen with the passage of time. A plan review with your advisor may produce possible solutions.

**Lack of caregivers.** Sometimes, convenient caregiving may not be available at any price. Rural isolation may be wonderful in the go-go years but not so much in the no-go years.

**Inflation risk.** People with do-it-yourself investment portfolios are most often in for an unpleasant surprise.

**Interest-rate risk.** Central banks for years have been keeping interest rates artificially low. A change, if and when it comes, will be a major adjustment.

**Stock-market risk.** Diversification is the antidote.

**Business risks.** These are less common, but if the holder of your retirement assets goes bankrupt, the loss may not be fully covered, or certainly a delay will occur in getting your money back.

**Public policy risks.** The government makes the rules on financial programs; the government can change them. You paid taxes on your earnings before they were put in the so-called Social Security pool. Now, when your money is being withdrawn, the government wants you to pay tax on the portion your employer put in. It didn't use to be that way. Public policy can change.

There are ways to anticipate and adjust to protect against these changes. Consulting with clients on retirement plan adjustments is a big part of the service I offer. Let's chat.

## **20. Maximize Returns With High-Cash Flowing Real Assets**

"In the short-term, the market is a voting machine. In the long-term, it is a weighing machine." Benjamin Graham

Warren Buffett's mentor, Benjamin Graham's quote is particularly applicable in describing today's market environment. Euphoric optimism has propelled most asset classes to extreme valuations. As a case in point, the inflation-adjusted CAPE Price to Earnings ratio now stands near a staggering forty. According to Cambria's Meb Faber,

no country has generated positive real returns five and ten years after trading at a CAPE greater than forty.

This doesn't mean that stock returns won't be good over the next year necessarily, but the odds of strong returns over the next decade are quite low, as starting valuations are one of the biggest indicators of long-term future performance. A lost decade for stocks has happened before, and should it happen again, it would have a massive impact on both the economy and retirement plans. Remember, the odds of a successful retirement (one that allows you to pay the expenses on your desired retirement goals) go down dramatically if one takes big losses five years directly before or after retirement. Sequence risk is a critical factor, but many who are 60 to 100 percent invested in stocks might not be prepared to protect themselves from this risk.

At TTCM, we take a business approach to investing. Valuations matter to us, as opposed to the valuation agnostic index approach. By definition, this means that we don't chase bubbles or try to keep up with them because we don't want to be blown up when the bubble pops. We want sustainable investment growth, not short-term sugar highs. In an overvalued market, this means finding pockets of value and using tactics to generate income, reduce risk, and maximize risk-adjusted returns.

Currently, there are extremely attractive investment opportunities in real assets, such as real estate investment trusts and commodity-based companies. High interest rates and the economic slowdown in China have made the near-term outlook for these industries foggy, leading to major discounts in valuation. This has allowed us to buy some of the highest quality companies at extremely attractive prices, offering very high dividends and an upside potential of 50 percent or greater. These stocks also offer a much larger margin of safety if we do indeed see a major bear market because many of these stocks trade at discounts to their net asset values. A lot of these stocks pay dividends between 4 and 8 percent, and I think, on average, they have the potential to appreciate by 15 percent per annum from current levels over the next five years or so.

Another area of opportunity that we have been taking advantage of is in the stocks of business development companies. These are companies that invest in diversified loan portfolios where they have been able to benefit from the higher interest rate environment. We have been investing in these stocks, offering dividend yields of between 9.5 and 14 percent. Often, we buy them at discounts to their liquidation values, or tangible book values. By buying them at discounts to their liquidation value, we create a larger margin of safety to deal with any higher-than-expected credit costs while also providing greater upside potential if that discount to net asset value closes. These are great sources of income, and those cash flows can either be reinvested or fund retirement expenses. Our research-based fundamental analysis gets into the weeds on credit quality and the risk management of these respective companies, as they are not all equal.

Beyond identifying undervalued investments, we utilize tools such as covered calls and cash-secured puts to generate income and reduce risk. These are strategies that pay the biggest dividends to us as investors in flat to negative market environments. They trade a higher probability of success, more income, and better protection for less potential upside in the most optimistic scenarios.

In closing, I think we are very well situated for the current market environment. I believe we still have the potential to generate very attractive investment returns even if the stock market is far less favorable over the next decade, which is my base-case scenario. I believe in a severe bear market; our losses would be dramatically less than the S&P 500 or Nasdaq. I also believe that with the way that our strategy is structured, we would be able to switch from defense to offense upon the market turning down, where we would be able to really take advantage of stocks trading at large discounts to intrinsic value.

## 21. Keys To Wealth Creation

I thought it would be helpful to write a chapter about wealth creation that clients and others could share with their children or grandchildren. Here are some lessons I wish I had known at a younger age. Life happens and many of us will stumble multiple times in our decision-making. Understanding a few basic concepts can greatly enhance our odds of financial success while reducing the stress that can come with uncertainty.

Don't count on the education system to teach you these things. It's much better if we take the responsibility upon ourselves to educate our children on these very important financial lessons, instead of relying on the government to do so.

**1) Make more money and maximize your income. This sounds simple enough, but often, there are little things you can do to make more money. One thing I'd recommend to just about everyone, including retirees, is finding a side gig. Maybe you open a store on Amazon, do consulting, or bake goods and sell them in your local community. Not only does this bring in additional income, but it also allows you to establish an entity such as an LLC (Limited Liability Corporation) and take material tax benefits that can dramatically increase your after-tax income. This also opens the door for setting up an individual 401(k) program or a SEP IRA (Simplified Employee Pension Individual Retirement Account), which might allow you to contribute more tax-free to your retirement.**

I'd encourage you to think about side gigs that can be fun and profitable, adding value to your life in multiple ways. I've dealt with many retirees who find themselves too bored in retirement, which is why this has been a staple recommendation for years now. Sometimes, the side gig turns into a full-time career, transforming your life completely, so you only find out by trying.

**2) Spend less money on non-appreciating things. Lifestyle creep is a very real thing, and as we make more money, it is really easy to spend more. Understand that overspending on non-appreciating assets is a path to failure to build the retirement and life you are looking for. Avoid that path. Purses, designer watches, and clothes are some of the major culprits. I'm a big proponent of travel, but that can be done economically and in proportion to your circumstances.**

**3) Invest early and often.** Compounding is the most important force in investing, and the earlier you start, the longer and more powerful the runway. Even if you start small but set up an automatic deposit of \$100 a month or whatever works for you, your odds of financial success improve exponentially. That money grows and earns interest and dividends, creating passive cash flows that can be harvested when needed. A time value financial calculator, and there are many on the market, can show you the impact that investment time horizon can have on building your wealth. Get that money invested, and don't hold more cash than you need to deal with emergencies. I usually recommend a six-month emergency fund.

**4) Buy appreciating assets.** For many people, the biggest source of savings and investment is the home they live in. First, real estate is an appreciating asset. Second, as people pay their mortgages, they are forced to save and not spend that money on unneeded items and services. Stocks, bonds, and real estate investments offer growth and income that are passive in nature. By being able to reinvest the cash flows these investments produce, one is creating a virtuous cycle of wealth creation. Remember, your first million is always the hardest. From there, it gets much easier as the money compounds. Focus on that first million. If you are just starting, focus on that first hundred thousand.

**5) Do everything you can to not get divorced, and don't spend too much on cars or purses.** I'm a product of divorce—my parents were divorced—so I fully understand that things happen. Nobody wants it, but it is the biggest wealth killer out there. It can turn a financially set family into a struggling set of individuals, often at some of the worst stages of life to fully recover. There are great stories of people having way better lives upon being divorced, so I'm not talking about any other element other than financial. Please take that for what it is.

Cars are another major problem investment being that they are extremely expensive, and they are depreciating assets. It's easy nowadays to spend \$60,000 to \$75,000 or more on a vehicle, and almost always, there are better uses for that money. My advice is to not go too crazy with cars until you get that first million in investments. My wife and I shared a car for years, saving us a ton of money. As our children got older and more involved in sports and other activities, having just one car became unfeasible. But while we did so, that freed up a huge amount of money that we were able to invest and grow for years.

**6) Maximize and optimize your 401(k) and IRA investments.** If your company matches, take full advantage of that. Often, 401(k) plans have expensive fees and

bad investment options. If your company doesn't match, you might consider a self-directed IRA to supplement the 401(k), which can be invested more flexibly. When you leave your company, almost always you want to take your 401(k) and roll it over into an IRA. If you are fifty-five or older but have been at the same company for some time, ask at what age you are able to do an in-service 401(k)/403(b) transfer. (A 403(b) is an employer plan for educators and nonprofits.) You can still maximize your contributions if there is a match, but you can invest the money much more dynamically outside of the traditional 401(k) framework. Taking advantage of Roth conversions is a very smart strategy to create tax-free wealth in retirement. This is where optimizing your tax brackets plays a critical role. If you have a cushion between your current tax bracket and a higher one, it can be effective to convert a portion of your IRA/401(k) into a Roth. Remember that there are holding period requirements before money converted to a Roth IRA can be used. While it isn't fun paying more taxes upfront, the benefit is that all the income and growth can be distributed tax-free from that point.

7) Estate planning is a fantastic way to build and transfer wealth, and most people need it. At a minimum, make sure all your beneficiaries are accurate and correct. You don't want to be the person who gives all your assets to your ex-wife from twenty-five years ago because you never changed your beneficiary designation. Life insurance is an essential component of any financial plan. Nobody wants to pay the premiums, but the catastrophic impact of not having life insurance when needed is too big. Term insurance is a much cheaper option, but if God-willing we live long, healthy lives, it gets more and more costly, and most term insurance isn't used ultimately. We all know young and healthy people who have experienced tragedy from something over the years, and life insurance makes the aftermath so much better. Permanent insurance is very costly, but the benefit is that if you have an unexpected health challenge, you don't have to worry about not being insurable, which happens to a lot of people. Many people find permanent insurance to be another great source of saving money, similar to owning a home, which is a major benefit. There are also combinations and strategies, such as using term insurance but investing the difference in premium payments to fund a self-insurance policy. This strategy brings with it a bit more uncertainty but can absolutely make economic sense in the right circumstances.

We can help you with both insurance and estate planning.

8) Avoid credit card debt like the plague. Credit card rates are in the mid to high 20 percent range, which is higher than Warren Buffett has been able to compound money. It is impossible to get ahead when you are compounding more and more

**debt at such astounding rates. Paying your credit card off each month is the solution, and spending less when needed so that you aren't carrying a balance is a requirement. If you are running a credit card balance, prioritize that repayment first.**

I hope that you find this helpful. I've made many of the mistakes I warn against in my life, so if you find yourself in the same position, don't beat yourself up. But do make changes to fix it.

## **22. In Conclusion**

Much has happened since 2011, when I decided to start T&T Capital Management.

We have come a long way, growing to 350 families and approximately \$190 million in assets under management. The referrals keep coming in, reflecting support for our approach to value investing combined with judicious use of an options tool to provide more return and less risk to clients' customized portfolios.

I thank God every day for the blessing of being able to work with such wonderful clients who entrust us with their hard-earned capital! My biggest mentors have been the writings of Warren Buffett, Benjamin Graham, Charlie Munger, Bruce Berkowitz, Joel Greenblatt, and Martin Whitman, among many others. I'm thankful that I had to work my way up. I'll never forget making hundreds of calls a day, selling somebody else's product. I remember telling myself that if I got the opportunity to do exactly what I'm doing now and apply the same work ethic, we could create something truly special, and I believe we are just at the beginning stages of T&T Capital Management. I'm so thankful for my team, including Peter Travis, Bruce Weinstein, Skylar Weinstein, Josh Gifford, Scott Allenburg, Mitchell Fee, and my wife Amanda Travis.

We are but one independent firm of many who have broken away to offer customized advice and analysis to clients. This is thanks to an exciting trend allowing entrepreneurs like me and my brother, Director of Operations Peter, to do what they like and excel while contracting specialists or large firms with back-office functions.

Remember, not so long ago—well, before the Internet era—when you couldn't get a stock chart unless an advisory firm mailed it to you each week? Now, with the punching of a few keys on your computer, you can get a chart of performance over days or years and comparisons with indices or other stock choices.

The best is yet to come.

You have worked an entire career assembling your nest egg. It deserves to be treated like a business would do it and put to work for you. Retirement is such a big step for all of us, and we at T&T Capital Management believe in helping through education in every way we can.

That includes:

- Our weekly radio show, "Truth About Money," broadcast every Saturday from 7 a.m. to 8 a.m. on KTAR 92.3 FM in Phoenix and every Saturday from 8 a.m. to 9 a.m. on KRLA AM 870 in Los Angeles
- This book and its twenty chapters, which we encourage you to give to a friend when making a referral
- Our periodic TTCM newsletters
- Our White Papers Library, which can be accessed through our website [TTcapitalonline.com](http://TTcapitalonline.com)
- Periodic webinars
- Or contact our office in Gilbert, Arizona, or
- By phone: 805-886-8140

We also offer free portfolio reviews. We look forward to hearing from you.

Contact information for T&T Capital Management is provided in the back of this book.

# Appendix

## A. About The Author

Tim Travis is the founder and Chief Investment Officer of T&T Capital Management LLC, a fee-only fiduciary investment advisory firm based in Gilbert, Arizona. He founded the firm in 2011 with the goal of bringing deep value investing principles — drawn from the work of Warren Buffett, Charlie Munger, Benjamin Graham, and other practitioners of the Graham-Dodd tradition — to individual investors and families.

Tim is a graduate of the University of California, Santa Barbara, where he studied economics. He spent his early career at firms including AG Edwards & Sons, Scottrade, and Vanguard before founding T&T Capital Management in 2011. He has written more than 300 research articles, primarily on Seeking Alpha, and is a regular guest on Bloomberg, CNBC, and various financial podcasts. He co-hosts the weekly radio program “Truth About Money” with Bruce Weinstein, broadcast on KTAR 92.3 FM in Phoenix and KRLA AM 870 in Los Angeles.

Tim lives in Gilbert, Arizona with his wife Amanda and their two daughters, Stella and Adriana. When he isn’t researching investments or working with clients, he can usually be found at the gym, on a hiking trail, or coaching his daughters’ sports teams.

## B. More Resources From T&T Capital Management

Beyond this book, T&T Capital Management offers several free resources for investors and prospective clients:

**Free Retirement Planning Tools.** A suite of free, no-signup-required calculators covering retirement projection, Roth conversion comparison, RMD analysis, Social Security claim-age optimization, the tax-torpedo / IRMAA cliff, sequence-of-returns Monte Carlo, and a unified Retirement Planning Scenario tool. Each calculator emails a personalized branded PDF analysis. Available at [tools.ttvalueinvesting.com](https://tools.ttvalueinvesting.com).

**Truth About Money Radio Show.** Tim Travis and Bruce Weinstein host this weekly program covering retirement planning, tax strategies, market commentary, and estate planning. Saturdays 7–8am on KTAR 92.3 FM (Phoenix) and 8–9am on KRLA AM 870 (Los Angeles).

**Weekly Newsletter.** Periodic research notes and market commentary delivered by email. Subscribe at [ttvalueinvesting.com](https://ttvalueinvesting.com).

White Papers Library. In-depth analysis on retirement income strategies, Roth conversion mechanics, IRMAA bracket management, and other planning topics. Accessible from the firm website.

Complimentary Portfolio Review. T&T Capital Management offers a no-obligation 30-minute portfolio review for prospective clients. We will discuss the structure of your current allocation, your goals, and whether a research-driven, business-minded approach might fit your situation.

To schedule, contact: [tim@ttcapitalonline.com](mailto:tim@ttcapitalonline.com) or 805-886-8140. Web: [ttvalueinvesting.com](http://ttvalueinvesting.com).

T&T Capital Management LLC is a fee-only fiduciary investment adviser registered with the U.S. Securities and Exchange Commission (CRD #158407). Form ADV Part 2A is publicly available at [adviserinfo.sec.gov](http://adviserinfo.sec.gov).

## **A Acknowledgments**

### **To Warren Buffett, the world's greatest investor**

"Rule No. 1 of investing is don't lose money. Rule No. 2 is don't forget rule No. 1."

*Warren Buffett in a television interview*

Thank you, Mr. Buffett, for teaching us you don't have to be a genius investor, you just need to be a deliberate businessperson.

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